POLITICAL ECONOMY

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POLITICAL ECONOMY FOR BEGINNERS

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BY

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NINTH EDITION

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PREFACE TO THE FIRST EDITION

When I was helping my husband to prepare a third edition of his *Manual of Political Economy*, it occurred to us both that a small book, explaining as briefly as possible the most important principles of the science, would be useful to beginners, and would perhaps be an assistance to those who are desirous of introducing the study of Political Economy into schools. It is mainly with the hope that a short and elementary book might help to make Political Economy a more popular study in boys' and girls' schools that the following pages have been written. In order to adapt the book especially for school use, questions have been added at the end of each chapter.

Cambridge, 1870.

PREFACE TO THE SECOND EDITION

In preparing a second edition of this little book, I have made no alterations in its general character and scope. Each page has, however, been carefully revised, and at the end of each chapter I have added, after the questions, a few little puzzles, which the learner is expected to be able to solve for himself or herself; they may also, in cases where this book is used in a class, serve as a vehicle for introducing a discussion.

I am greatly indebted to Mr. E. E. Bowen of Harrow School for his kindness in suggesting this addition; and I am also specially indebted to Prof. J. E. Cairnes for many most valuable criticisms, of which in preparing this edition I have largely availed myself.

London, 1872.

PREFACE TO THE FIFTH EDITION

THE principal alteration in this edition of *Political Economy for Beginners*, is the adoption of Prof. Jevons' enumeration of the qualities which should characterise the substance selected to serve as money. I have gone through each chapter very carefully, and have altered and enlarged a great many of the illustrations, endeavouring to make them apposite to the economic conditions of the present time. I have also added an index at the end of the book, which I hope may add to its usefulness to teachers and their pupils.

LONDON, *June* 1880.

PREFACE TO THE SIXTH EDITION

I HAVE endeavoured in the present edition to make such alterations and additions to this little book as the circumstances of the time seemed to require. The principal among the latter are references to the theories propounded by Mr. Henry George in *Progress and Poverty*, and to recent experiments in England and on the Continent of Europe in co-operation and profit sharing. Mr. Sedley Taylor, Trinity College, Cambridge has made a special study of the subject of profit sharing, and I am mainly indebted to him and to his book (*Profit Sharing*, by Sedley Taylor, M.A., Kegan Paul and Co.) for the facts contained in the present edition.

September 1884.

PREFACE TO THE SEVENTH EDITION

THIS edition has been prepared without making any material alteration in the plan or character of *Political Economy for Beginners*. As on former occasions, I have brought the little book up to date as to facts and figures, and I have substituted new illustrations, in some cases, in the place of old ones. It has also been endeavoured to throw some light, from the teaching of economics, on one or two of the problems of the present day, such as that which is associated with the words "the unemployed." The facts and figures I have used are for the most part taken, unless some other authority is quoted, from the *Statesman's Year Book* 1887, published by Messrs. Macmillan and Co., and from the Statistical Abstracts for Great Britain and foreign countries published annually as blue-books.

LONDON, *December* 1888.

PREFACE TO THE EIGHTH EDITION

THE principal changes in the present edition are in the form of expansions. Socialism, or, as it is now sometimes called, collectivism, is rather more fully treated than in former editions. A similar remark applies to the subject of bi-metallism.

The recent changes in the history of co-operation and co-partnership rendered it necessary to treat this subject in a new chapter, in which attention has been called, among other things, to the beginning of agricultural co-operation in Ireland, to the remarkable success of the Raiffeisen credit banks in Germany and Italy, and to the efforts now being made to start similar organisations in the United Kingdom.

The effect on the price of agricultural produce brought about by cheapening and facilitating its transit from the most distant markets, is one of the most important economic facts of our time; and has modified many of the conclusions formerly arrived at upon the effect of increased population on the rent of land and on the price of food. By taking account of these and other changes in economic development, I have endeavoured to bring this little book up to date, and I hope it may still prove helpful to beginners.

LONDON, *July* 1896.

PREFACE TO THE NINTH EDITION

In preparing a ninth edition of this little book, I have acted on the same principles which have guided me on previous occasions. The pruning knife has been used and dead wood cut out. New examples have, in many instances, been given, taken from recent events, such as the South African War, the Brussels Sugar Convention, the passing of another Irish Land Act, the development of agricultural and industrial co-operation in England and Ireland, and the fiscal controversy of 1903–4.

In some or all of these the intelligent boy or girl is already interested or prepared to be interested. My wish is that this little book should help towards the understanding of these and similar subjects and in the application of economic principles to the problems of every day.

I am much indebted to Sir George Livesey for information concerning the continuous growth of co-partnership in the South Metropolitan Gas Works; to Lord Monteagle and to the Rt. Hon. Sir Horace Plunkett for an account of the satisfactory growth of the Raiffeisen banks and other forms of agricultural co-operation in Ireland.

For statistics I have relied on the Statistical Abstracts, the Board of Trade Blue Book, Cd. 1761, 1903, Mulhall's *Dictionary of Statistics*, *The Statesman's Year Book* and the Journals of the Royal Statistical Society.

LONDON, *March* 1904.

INTRODUCTION

Political Economy is the science which investigates the nature of wealth, and the laws which govern its Production, Exchange and Distribution.

As wealth is the subject of political economy it is necessary to understand precisely what wealth is.

Wealth is anything which has an exchange value. This definition will be readily understood if the student recalls some things which, however useful and indispensable, cannot be considered wealth. Thus, the air we breathe has no exchange value ; no one will exchange anything for any quantity of air, because every one can freely and without any labour obtain as much air as he requires. In the same way the light of the sun has no exchange value. In many places water has no exchange value. Water, however, acquires an exchange value in all places where the natural supply is insufficient to meet the wants of the inhabitants. In large towns, for instance, water is supplied by means of canals and aqueducts, and in this case it has an exchange value, and may consequently be regarded as wealth.

Many most mischievous errors have been fallen into by persons who have mistaken the true nature of wealth. Formerly it was almost universally considered that "wealth" and "money" were synonymous terms. Acting on this belief, the wealth of a country was estimated by the amount of gold and silver it contained ; and artificial restraints were placed upon commerce, with the view of preventing the precious

metals from being sent out of the country. There are many excuses for the persons who made the mistake of confounding money and wealth. Like many others, they mistook the sign for the thing signified. Wealth is always estimated in money. The income of a rich man is said to be so many thousand pounds; the national revenue and the national expenditure are said to be so many million pounds.

These and hundreds of similar facts caused the true nature of money to be misunderstood. The best way of arriving at a trustworthy conclusion respecting it is to look back into history, and see what other nations have done who have not made use of gold and silver coin. The money of the Chinese once consisted of small cubes of pressed tea; there are certain tribes of Indians who use a sort of shell as money; the pre-historic Greeks used cattle as a medium of exchange, and they substituted pieces of metal impressed with the image of an ox only when they began to trade across the seas. Adam Smith speaks of some Arabs who also used cattle for money; they fell into the same error as those who thought that wealth was the same thing as money, for they thought that no country could be wealthy that did not possess vast herds of cattle. When they first heard of France and wished to form an idea of its wealth, they asked how many cattle it contained. There have been times in the history of every country when the use of money, even of a rude description, was unknown; all exchange then had to be carried on by means of barter.

Thus if a man who had two boats were in need of a spear, he would offer a boat in exchange to any one who would give him a spear. Though commerce could not flourish under such a system of exchange as this, yet it is idle to assert that these barbarous communities possessed no wealth, for we previously explained that wealth was anything that had an exchange value.

The real nature of Money. What then is money? It is a measure of value, and a medium of exchange. When it is said that money is a measure of value, it is virtually affirmed that any substance is money which is selected by universal consent to serve as a standard by which the value

of all other commodities may be estimated. That this substance need not be gold or silver has been shown above; in fact, any article might be selected to serve as a measure of value.

The meaning of the assertion that money is a medium of exchange is that the exchange of commodities is usually transacted through the medium of money. Thus a farmer who wished to sell barley and buy guano would not probably effect a direct exchange of these two commodities; he would sell the barley for money, and with this money he would buy the guano.

The mercantile system. The error of identifying wealth with money led to the policy, briefly alluded to above, of doing everything to foster the accumulation of gold and silver. With this end in view statesmen did all they could to encourage the export trade of their own country, and to discourage importations from abroad by placing heavy duties on imported goods, and by giving bounties on exports. At the time when this policy was prevalent in England, very large duties were placed upon French wine, brandy, silks, lace, etc., with the object of preventing large quantities of these commodities being bought in England; for this, it was argued, would decrease England's wealth by causing money to be sent from England to France. The fallacies of this policy, which is known as the Mercantile System, were first exposed by Adam Smith in his great book *The Wealth of Nations*, published in 1776. In this work he pointed out the errors of a book, called *England's Treasure in Foreign Trade*, which was the guide of the statesmen who carried out the Mercantile System. The object of this book actually was to shew that home trade was of little consequence, because it did not increase the amount of gold and silver in the country. Adam Smith's work explained, for the first time in England, the true nature of money, and shewed that if all restrictive duties were discontinued the exports and imports of a country would tend to be equal.

Free trade. This part of our subject will be more fully explained in a subsequent chapter; at present it is only necessary to add that the policy of removing restrictive

duties on imports and allowing commerce to take its natural course is known as the Free Trade Policy.

With these few introductory remarks we pass to the consideration of the first of the three great branches into which our subject is divided, viz. the Production of Wealth.

Questions on the Introductory Chapter.

1. What is Political Economy?
2. What is Wealth?
3. What is Money?
4. Enumerate some of the articles which have at various times been used as Money.
5. What is Barter?
6. Describe the Mercantile System.
7. Whence arose the errors of this system?
8. By whom and how were the errors of the Mercantile System first combated?
9. By what Policy has the Mercantile System been superseded?

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1. Could a man be said to be wealthy, if he had not sixpence in the world?
2. Was the Spartan nation poorer because it prohibited gold?
3. Is barter quite extinct in England?

SECTION I

The Production of Wealth

It was stated in the Introduction that Political Economy investigated the laws which regulate the Production, the Exchange and the Distribution of Wealth.

The three requisites of Production. It is proposed in this section to dwell solely upon the Production of Wealth. There are three requisites of production, by the combined agency of which wealth is produced. These are Land, Labour and Capital. In order that the various functions of these three requisites may be clearly explained, and that the peculiar office which each performs in the production of wealth may be accurately defined, this section will be divided into three chapters, under the heads of Land, Labour and Capital.

Chapter I. *On Land.*

Land as an agent of Production. A few moments' reflection will reveal the indispensable nature of the service which land renders to the production of wealth. There is no article of commerce, the origin of which cannot be either directly or indirectly traced to land. Look round the room in which you sit, or look at the clothes you wear, and you will notice that you can see nothing that has not been derived from the land. A piece of woollen cloth, for instance, is derived from the land. The wool from which it is made has been originally taken from the back of a sheep, which lived on the grass, turnips, etc., grown on the land. Calico

can be traced even more directly to the land. The cotton plant, from the fibres of which calico is made, is the production of the land. All manufactured articles are made either of animal, vegetable, or mineral productions, all of which are derived from the land.

In fact the importance of land as an agent of production s so great that the French economists, in the time of Adam Smith, asserted that land was the sole source of wealth. It will however be shewn that Labour and Capital are also indispensable to the production of wealth.

Circumstances which increase the productive power of land. There are many circumstances that increase the productive power of land. The beneficial effects of the artificial manures which chemistry has brought within the reach of the farmer are well known. We need do no more than allude to the modern inventions of the numerous machines, such as the reaping and thrashing machines, which do so much to increase the productive power of land, labour and capital. Many large tracts of country, such as the fens of Cambridgeshire which were once useless swamps, have been turned into rich corn land by means of drainage. It is evident that the productiveness of such land is mainly dependent on the labour and capital that have been devoted to its improvement.

Large and small farming. Much controversy has been carried on as to the relative advantages and disadvantages of large and small farming. One of the principal advantages of large farming is that it makes the use of improved machinery much more available. A farmer who rents 800 acres will find it pay him to use the steam plough and steam thrashing-machine ; and he will be able to avail himself of all the latest improvements in the manufacture of agricultural implements. A flock of 1000 sheep does not require twice as many shepherds as a flock of 500. The housing of a large number of cattle does not cost so much per head as the housing of a smaller number.

The principal advantage of small farming is that the farmer being himself a labourer, and being continually working with and among his assistants, there is no probability of the

work being neglected ; the strongest motives of self-interest prompting the farmer to the most strenuous exertions.

A distinction between peasant proprietors and peasant tenants. While dwelling on the influence of small farming in stimulating the industry of the farmer, it should be stated that the remarks just made apply much more powerfully in the case of peasant proprietors than in the case of peasant tenants. Nothing can be more depressing to the industry of the peasant tenant than to know that the more he exerts himself the more certain he is to have his rent raised. The peasant proprietor reaps all the fruit of his hard work himself ; whereas the peasant tenant often knows that increased exertions would benefit not himself but his landlord. The peasant tenants in some parts of Italy suffer almost incredible hardships from want of sufficient food. Everything which their land produces, except the barest pittance of Indian corn, is taken from them in the form of rent. Ireland, before the passing of the Land Acts of 1870, 1881, 1885, 1887 and 1903, afforded another example of the evils arising from the system of peasant tenant farmers. Before the earlier of these Acts were passed, the tenant usually held his land from year to year ; he was liable to have his rent raised if he improved the land, and he was liable to arbitrary eviction without compensation for such improvements as he had been able to carry out. The Act of 1870 gave him a claim for compensation for improvements and for arbitrary eviction ; and legalised the Ulster custom of the sale of the tenant right. The Act of 1881 went a long way towards giving the tenant the advantages of proprietorship, for it conferred upon him the power to appeal to the Land Court to fix a "fair rent" ; the rent so fixed was supposed by the Act of Parliament to be unalterable for fifteen years, and the tenant's interest in his holding thus created can be sold by him, the landlord having merely the first choice of becoming its purchaser. The Act of 1885, generally known as Lord Ashbourne's Act, enabled the tenant, with the consent of his landlord, to become the purchaser of his holding ; the money that he requires for this purpose is advanced by the Government, and the tenant by paying four per cent. on this sum for forty-nine years clears off

both principal and interest, and will become the owner of the fee simple of the land. The interest paid to the Government is generally about twenty per cent. less than the former rent. Another Irish Land Act was passed in 1887, one of the provisions of which legalised the lowering of the judicial rents fixed for fifteen years by the Act of 1881, in accordance with the fall in agricultural prices. The Act of 1903 (Mr. Wyndham's Act) was a further extension of the principle of Lord Ashbourne's Act. It authorised the advance to a body called The Estates Commissioners of £100,000,000, spread over fifteen years, from the Imperial Exchequer, to be used in making advances to tenants to enable them to purchase the fee simple of their holdings ; and it likewise provided a "bonus" of £12,000,000 to be used to induce landlords to sell on terms acceptable to the tenants.

Most contradictory accounts are given by different writers as to the results of small proprietorship on the Continent, but there are some agricultural products which are seldom successfully cultivated in those countries where small farming is unknown. Fruit farming and poultry rearing are rarely successful but in those localities where small farming prevails. A similar remark applies to dairy farming. An illustration of the difference between the agriculture of the Continent of Europe and England may be given by the fact that in 1902 the United Kingdom imported from Russia, Sweden, Denmark, Germany, Holland, Belgium and France combined no less than £5,735,000 worth of eggs.[1] This may be due in part to the soil and climate of some of the countries of Europe being more favourable for poultry farming than those of England ; but there must be other causes as well ; Denmark, for instance, sent us £1,366,000 worth of eggs in 1902, and it has not a better climate than our own. A more powerful cause is probably to be found in the fact that Denmark's chief source of wealth is agriculture, and that the land is very much subdivided into small holdings. The peasant farmer thinks no trouble too great if it results in profit, and he is therefore peculiarly successful in such an industry as poultry

[1] Board of Trade Blue Book, "British and Foreign Trade and Industry, 1903," CD1761, p. 116.

farming, where everything depends on personal work and constant attention to small details. English farming is done on a much larger scale and in many districts by capitalist farmers. Who has not heard in the country the continual complaints of the difficulty of getting good milk and butter? People say "the farmers' wives are such fine ladies now, that they are too grand to do what their mothers and grandmothers did before them, that is, get up at five o'clock and do the dairy work themselves." This remark points out the difference between large and small farming; the fact being that in modern times the size of farms has very greatly increased; the farmer and his wife are therefore removed from the social position they formerly occupied, and they will no longer work like their own labourers. When everything has been said on both sides respecting the advantages of large and small farming, the question still remains an open one. In a future chapter it will be pointed out that there is a way of combining the advantages of both systems, by giving labourers a direct pecuniary interest in the soil which they cultivate.

Questions on Chapter I. *On Land.*

1. What are the three requisites of the Production of Wealth?

2. Shew that Land is an indispensable agent of Production.

3. Mention some of the most obvious means of increasing the Productiveness of the Land.

4. Enumerate some of the advantages and disadvantages of large and small farming.

5. Why should a distinction be made between peasant proprietors and peasant tenants?

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1. If the Irish Land Acts have the effect of consolidating the small farms into a smaller number of much larger farms, would this probably cause any change in the production of butter in Ireland?

2. Milton exchanged the copyright of *Paradise Lost* for £15. It had an exchange value and was consequently wealth. What had Land and Capital to do with the production of this wealth? [1]

CHAPTER II. *On Labour.*

Labour a requisite of Production. In the Introduction when the nature of wealth was explained, an example was given of a commodity which in some circumstances cannot be regarded as wealth, and yet in other circumstances certainly constitutes wealth. It was shewn that water has no exchange value so long as it is supplied spontaneously in sufficient quantities by the bounty of nature, because no one will buy what he can obtain gratuitously and without labour; but water immediately becomes wealth when labour is required to convey it to the spot where it is needed. In the same manner, all commodities which have an exchange value have been made available for consumption by many different kinds of labour. It is in fact almost impossible to enumerate all the different kinds of labour which have been required to produce such a simple thing as bread. Bread, it is true, may be said to be the result of the labour of the baker, but his work is only a very small part of the great amount of labour employed in producing bread. There are the miller who grinds the wheat, the reaper and the sower, the ploughman who prepares the land, the agricultural implement maker who manufactures the plough, and the miners who obtain the metal of which the plough is made; besides these there are the waggoners, bargemen, sailors and others, who convey the materials to the places where they are wanted; the shipwrights who build the ships, and so on in never-ending succession.

[1] The French socialist Fourier, in the scheme which he elaborated for the reconstruction of society, placed "Talent" among the requisites of Production, and assigned to it a certain definite share (one-fourth) of the wealth resulting from the combined efforts of the members of the society.

Definition of the exact service which Labour renders to Production. The exact service which Labour renders to the Production of Wealth is defined by Mr. Mill to be "putting things into fit places," or "moving one thing from or to another." This simple definition is so comprehensive as to include all the varied operations of industry. "Labour then, in the physical world, is always and solely employed in putting objects in motion ; the properties of matter, the laws of nature, do the rest."

Take as an example the labour which is employed in building a house. How are bricks made? By moving a certain kind of clay from the place in which it is found ; by pressing it into a mould and by bringing it in contact with fire. How are planks made? By moving an axe through a tree, and by moving a saw through the fallen trunk. It is unnecessary to enumerate further instances of the application of the principle, that "man has no other means of acting upon matter than by moving it." (Mill's *Principles of Political Economy*, pp. 32, 33.)

Many examples of the extent to which skilled labour can add to the value of commodities may be taken from the various operations of watch-making. For instance, one pound weight of the microscopically small steel screws used in watches is worth six pounds weight of pure gold, or more than £280. In an article on watch-making by Miss Faithfull in the *Victoria Magazine*, the following description is given of the "hair-spring" which every watch contains :—"A hair-spring weighs only $\frac{1}{15.000}$ of a pound troy. In a straight line it is a foot long. With a pair of tweezers we draw one out in spiral form till it is six inches long ; but it springs back into place, not bent a particle from its true coiling. It must be exquisitely tempered, for it is to spring back and forth 18,000 times an hour, perhaps for several generations. A pound of steel in the bar may cost a dollar ; in hair-springs it is worth 4000 dollars."

Though no wealth can be produced without labour, yet there are some kinds of labour which may be very useful but which do not assist the production of wealth. This labour is called "unproductive." Political economists have differed

widely in their definitions of unproductive labour. This has partly arisen from some economists attaching an implied reproach to the epithet "unproductive." There is however no reproach conveyed in this term, unless the production of wealth is the only worthy object of existence. Mr. Mill's definition of Productive Labour is "that which produces utilities fixed and embodied in material objects."

Labour which is indirectly productive. The question then arises, "Is the labour of a teacher unproductive?" A schoolmaster may not with his own hands produce "utilities fixed and embodied in material objects," but through his instrumentality the number of productive labourers may be vastly increased. Let us suppose, for example, that a schoolmaster educates fifty boys taken from lives of idleness and vice in the streets of London; if he trains them in habits of intelligent industry, a very great number of them will probably become productive labourers. Is the inventor of a machine an unproductive labourer when by means of his invention the productiveness of other men's labour may be increased a hundredfold? These questions must certainly be answered in the negative. A distinction must therefore be drawn between labour which is indirectly productive and that which is directly productive. In the former class we place the labour of the schoolmaster, the inventor, the policeman, etc.; in the latter we place the labour of the shipwright, the shoemaker, and all those labourers whose manual work produces utilities fixed and embodied in material objects.

Unproductive Labour. Unproductive Labour is that which neither directly nor indirectly helps to increase the material wealth of the community. The labour of an opera singer, an actor or a public reader is unproductive. The labour of a statesman is generally unproductive, although occasionally it is indirectly productive of wealth. The abolition of the corn laws, for instance, and the adoption of a free trade policy, caused an enormous increase in the material wealth of this country.[1] But it must be remembered that the

[1] This statement has recently (1904) been disputed by those who desire to revive protective duties. It can, however, hardly be denied on a review of the facts that free trade has caused an immense

work of statesmen in getting rid of protection consisted in releasing trade from the shackles which the mistaken policy of previous generations of statesmen had imposed upon it. It is very often the case that when the labour of statesmen appears to be indirectly productive in the highest degree, it

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improvement in the condition of the general mass of the people of this country. In 1842, when Sir Robert Peel began his series of financial reforms which culminated in the entire abolition of protection, nearly 1200 different articles, many of them of primary necessity, were subjected to import duties. Wheat was more than three times its present price, wages were low, distress was chronic. In the agricultural districts of Somersetshire, Wiltshire and Dorsetshire wages were only 7*s.* or 8*s.* a week. In Mr. John Morley's *Life of Cobden* the weekly budget of a farm labourer in Somersetshire, with a wife and five children, in the year 1840 is given :—

	s.	*d.*
Half a bushel of wheat	4	0
Grinding, baking, and barm		6
Firing		6
Rent	1	6
	6	6

leaving out of the total earnings of seven shillings a balance of sixpence, out of which to provide a family of seven persons with clothing, tea, sugar, potatoes, and all the other necessaries of human existence. It is not claimed by the advocates of free trade that the whole of the improvement between 1840 and 1904 is due to free trade. It is in part due to education, to improved means of communication both by sea and land, to the greater productiveness of labour in consequence of steam and better machinery. But all these ameliorating circumstances have been at least as actively operative in Germany as they have been in England ; the main industrial difference between England and Germany is that while England for more than half a century has enjoyed the advantages of free trade, and has had the world for her granary and her stock-farm, Germany has remained a strictly protectionist country. A comparison of the wages, hours of work, and cost of bread in Germany and in England is very strikingly in favour of England. Comparing the wages in fifteen skilled trades in both countries the Board of Trade Blue Book, Cd 1761, shews (p. 289) that they are 42*s.* a week in England, against 24*s.* in Germany. Taking larger groups of trades it is estimated that if 100 represents an average family income in the United Kingdom, 69 represents the corresponding figure in Germany. The hours of labour are also about half as long again in Germany as in England ; while the price of wheat, which was 28*s.* 1*d.* a quarter in England in 1902, was 35*s.* 9*d.* a quarter in Germany, where the import duty is 7*s.* 7½*d.*

gains this characteristic because it undoes the mistakes of former statesmen. It is therefore very difficult to say whether on the whole the labour of statesmen is indirectly productive of wealth, except in so far as it guarantees the security of life and property.

Sometimes the labour of productive labourers turns out to be unproductive ; as for instance in the case of the labour which produced the numerous unfinished canals which were abandoned about the time when it became apparent that railroads would supersede water-carriage. On the contrary the labour of an unproductive labourer sometimes becomes, as it were by an accident, productive of wealth. Through the labour of scientific chemists, discoveries have been made which have greatly facilitated many industrial processes. It will thus be seen that it is sometimes difficult to decide concerning any class of labourers whether their labour will prove productive or unproductive. Before a final decision can be given the result of their work must be known. The more difficult a piece of work is, the more impossible is it to tell beforehand, as the proverb says, whether the workman "will make a spoon or spoil a horn."

Adam Smith's Three Advantages of Division of Labour. There are many circumstances which greatly increase the productive power of labour. Foremost among these must be placed the Division of Labour. In many industrial processes, such as that of making a glass bowl, a great number of workmen are employed, each one of whom performs a single operation. One man blows the glass into shape ; another polishes it ; another makes deep flutings on it ; then it is repolished by another ; and after a variety of more or less delicate operations, a highly skilled workman engraves upon it some beautiful and artistic figures. The various advantages which are produced by the division of labour were enumerated, as follows, by Adam Smith. 1st, The dexterity of the workman is increased. 2nd, Time is saved by the workman not passing from one employment to another. 3rd, Suitable machinery is more likely to be invented, if the mind of the workman is concentrated on a special process.

An illustration of the first advantage. The increased dexterity of the labourer is by far the most important advantage derived from the division of labour. In some of the manufactures of such a town as Birmingham, the dexterity of the workmen produced by division of labour is quite marvellous. In the pen manufactory the sole occupation of some of the workmen is to take the pens from the machine in which they are made: this is done with such wonderful rapidity that the spectator can scarcely follow with his eye the movement of the workman's hand. This dexterity can only be acquired by the workman devoting himself to a single operation.

An illustration of the second advantage. An illustration of the advantage gained by the workman not passing from one employment to another may be taken from what every one has seen at a railway station. When the lamps in the carriages are being taken out, one man goes on the top of the carriages, takes out a lamp, throws it down to a man who puts it into a rack for the purpose of holding lamps. In this manner thirty or forty lamps can be taken out in a very few minutes; whereas if one man performed the whole of the work, and had to ascend and descend the carriages with every two or three lamps he removed, it would probably take him more than half an hour to take out as many as with the assistance of another man he removes in five minutes.

An illustration of the third advantage of the division of Labour. Adam Smith says that the third advantage of the division of labour is the invention of a great number of machines which facilitate and abridge labour, and enable one man to do the work of many. Adam Smith gives a good example of the importance of this advantage. When the first fire-engines were constructed a boy was employed in opening and shutting a valve. This was his only work, and he thought that if he could contrive some plan by which the valve opened and shut without his assistance, he could spend all his time at play; he accordingly tied a string from the handle of the valve to another part of the machine, by means of which the valve opened and shut at the proper time without demanding any attention on his part.

A fourth advantage of division of Labour. Adam Smith failed to mention one other most important advantage derived from the division of labour. The omission was first pointed out by Mr. Babbage. This advantage is that each workman can be employed solely upon the work which he can do best. It is very wasteful to employ a man who is capable of doing work worth 10*s.* a day, to do some unskilled work worth only 2*s.* a day. The old saying, that it is no good to put a race-horse to plough, may be used to suggest an illustration of the fourth advantage of division of labour. To return to our example of the glass bowl; it would manifestly be quite useless to employ an unskilled labourer to engrave a delicate pattern upon the glass; and it would be very wasteful if the skilled workman, who is perhaps paid at the rate of £3 per week, were obliged to perform operations which could be equally well done by a boy receiving 8*s.* or 9*s.* per week.

Perhaps it may not be out of place to mention one or two disadvantages connected with the division of labour. A turner who spends his whole life in making front legs of chairs has no responsibility for the chair as a whole: he merely turns out, to pattern, so many gross of legs of chairs per week or month. Hence the intelligence and artistic perception of the workman are not awakened. Chairs are manufactured which are neither strong, comfortable nor beautiful; and this is probably due to the division of labour which makes no one man responsible for the chair as a whole. Excessive division of labour also tends to reduce the labourer to a mere machine: he can perform one particular operation with great dexterity; but if his task is changed his skill and usefulness vanish. His intelligence may be naturally good and it may have been developed by the other circumstances of his life; but where division of labour is carried to a very great length, it is hardly developed by his daily work.

Free Trade a division of Labour. The division of labour is a great subject, and should be carried beyond the workshop and the manufactory. Free trade is simply an extension of the principle of the division of labour. By breaking down the artificial barriers which have been erected between

nations, each country, instead of being obliged to depend entirely on home manufactures, can devote its energies to those branches of trade or agriculture to which natural circumstances or national peculiarities have especially adapted it.

Co-operation of Labour. Great as the effect of the division of labour is in increasing its productiveness, it is probable that the co-operation of labour is a still more powerful agent in augmenting the efficiency of labour. Co-operation of labour has been defined as "the combined action of numbers"; the meaning of the term may be illustrated by an example. In hauling a life-boat up a steep beach the combined labour of a great number of men is needed, and in this way the boat is drawn up in a comparatively short time. If one man attempted to draw up the boat by himself his labour would be thrown away.

Simple and complex Co-operation of Labour. There are two kinds of Co-operation of labour:

1st, Simple Co-operation; or the co-operation which takes place when several persons help each other in the same employment; for instance, in lifting a heavy weight, as in the example just given.

2nd, Complex Co-operation; or the co-operation which takes place when several persons help each other in different employments. An instance of complex co-operation of labour may be found in the labour which is employed to manufacture a piece of cotton cloth. In this case many different kinds of labour, employed in different ways and in different places, combine or co-operate together. Those who sow the cotton seed, and after the pod is ripe pack it in bales for exportation; the sailors who convey it from America to England; the artisans who perform so many operations upon the raw cotton before it is converted into cloth, combine their labour in order to produce a piece of calico. Another instance of complex co-operation, or several persons helping each other in different employments, is found in the assistance which agricultural labour and manufacturing labour render each other. In other words, when "one body of men having combined their labour to produce more food

than they require, another body of men are induced to combine their labour for the purpose of producing more clothes than they require, and with those surplus clothes buying the surplus food of the other body of labourers."

Mr. Wakefield's theory of Colonisation. A consideration of the mutual benefits which town and country labourers derive by exchanging the surplus products of their industry formed the basis of Mr. Wakefield's theory of Colonisation.

Mr. Wakefield pointed out that the plan of granting to each family of settlers in a new colony a tract of fertile land, large enough to supply all its wants, tends directly to discourage the growth of commerce and the progress of civilisation. A certain amount of rude abundance may be obtained, but each family being isolated and independent there is neither inducement nor opportunity for enterprise, and no motive to produce more than is required for the consumption of the household. To remedy this Mr. Wakefield proposed that, as far as possible, there should be, in every colony, a town population side by side with the agricultural population. Division of labour would thus be greatly encouraged, and production would be stimulated, for a market would be found for the sale of agricultural produce in the town; the inhabitants of which would in return be compelled to exchange some articles of manufacturing industry.

The use of Tools and Machinery. Having mentioned two causes which act very powerfully in increasing the productiveness of labour, viz. Division of Labour and Co-operation of Labour, we now pass to a third, the importance of which must be evident to all; viz. the use of tools and machinery. There is no industry which is independent of the use of tools; even the rudest agriculture could not be carried on without a spade, nor the plainest sewing without a needle; and in nearly all branches of industry the introduction of elaborate machinery is rapidly becoming general. There are two ways in which machinery increases the productiveness of labour. One in which it supersedes or takes the place of the labour of individuals, as in the case of the reaping-machine, or the sewing-machine; and the other in which

machinery achieves that which no amount of unassisted human labour could perform ; such as propelling an express train at sixty miles an hour. In the first case machinery, by enabling a few persons to do the work previously performed by a great many, sets free a large quantity of labour, which seeks employment in other directions. In the second case it opens new fields of enterprise, which tend to absorb the labour set free by the introduction of machinery into other industries.

The productive power of Labour is increased by the skill, intelligence, morality and trustworthiness of the labourer. The three principal material agencies have now been mentioned which increase the productive power of labour. But there are other than material agencies, which must not be passed over. These are the skill, intelligence, morality and trustworthiness of the labourer.

That the skill of the workman increases the productive power of labour is so self-evident as scarcely to need illustration. In many industries the necessary skill cannot be acquired without a long apprenticeship, and it is frequently several years before the labour of the apprentice is remunerative to his master ; for from want of skill the apprentice frequently spoils the materials of his industry.

The Intelligence of the Labourer. The importance of the diffusion of intelligence among workmen and workwomen, as a means of increasing the productiveness of labour, can hardly be exaggerated. An unintelligent workman performs his task mechanically ; he does what he has learnt to do, and no more ; he suggests no improvements. If the industry in which he is engaged becomes depressed and he consequently loses his employment, he can turn his hand to nothing else ; and he and his family soon become dependent on the rates, or on private charity.

The Morality of the Labourer. The morality of the labourer is also an important agent in increasing the productiveness of labour. All intemperance greatly diminishes physical strength. The habitual drunkard is usually incapable, even when he is sober, of performing any severe labour, and habits of intemperance nearly always produce premature

decay and death. The morality and the intelligence of the labourer are intimately connected with each other. An unintelligent person can never enter into intellectual enjoyment, and can seldom appreciate innocent pleasures. The general diffusion of education is very important from the economical, as well as from other points of view. Education stimulates the intelligence and thus makes the labourer more efficient; it also tends to make him more temperate, because it opens to him new sources of healthy and innocent pleasure and recreation. There was a very decided decrease in crime and pauperism in England and Scotland after the passing of the Elementary Education Act in 1870; and it may be fairly concluded that to a considerable extent the improvement was due to education. The decrease in crime between 1870 and 1895 was about 25 per cent., and the decrease in pauperism was about 20 per cent. This decrease in crime and pauperism in England and Scotland since 1870 is the more satisfactory, when it is remembered that it is an actual decrease, and not merely a decrease in proportion to the numbers of the population: the diminution in crime and pauperism having been accompanied, in Great Britain, by an increase of population, during the same period, from 25,000,000 in 1870 to 34,000,000 in 1895.

The value of Trustworthiness in the Labourer. If labourers are untrustworthy, it is necessary to employ persons whose only business is to see that the labourers do their work. If people could be trusted, the labour of overlooking and watching might be saved, and drafted off to some other employment. It must also be remembered that if labourers require to be watched they will always find opportunities of shirking their work, no matter how careful the overlooker may be. This is particularly the case in agriculture, where the nature of the various occupations, and the great distance over which the labourers are scattered, render supervision extremely difficult.

Before leaving the subject of productive and unproductive labour, it may be well again to enumerate those causes which increase the productiveness of labour. These causes are divided into two classes:

MATERIAL	*and*	MORAL.	
The Division of Labour.		The Skill,	of the Labourer.
The Co-operation of Labour.		The Intelligence,	
		The Morality,	
The Use of Machinery and Tools.		The Trustworthiness	

Having now discussed the meaning of the terms productive and unproductive labour, it will be necessary, before investigating the functions of capital, that the student should know what is meant by productive and unproductive Consumption.

Productive and Unproductive Consumption. The distinction between productive and unproductive labour must be borne in mind, and it will then be seen that the productive labourer is also the productive consumer, and *vice versâ*. All the consumption of the productive labourer is not productive consumption, but only that part of it which is employed in sustaining him whilst he is engaged in production. All luxuries must be consumed unproductively, because the consumption of them does not assist future production. All waste is unproductive consumption; and instead, as some suppose, of being beneficial to society, is in reality injurious to it. If the mere consumption of commodities were productive of wealth, no matter whether the object for which they are consumed is useful or not, the quickest way for a nation to become rich would be to burn down houses, manufactories and public buildings, destroy the railways and docks, and pull down the telegraph-wires.[1] There can be little doubt that such conduct would soon produce great activity in the building and engineering trades; but their gain would be at the expense of the general loss. An American paper, after the great fire at Chicago, remarked what an excellent thing that great calamity had been for the building trade. The writer did not seem to remember that all that the building trade gained, and much more, had been lost by the owners of the property

[1] War affords one of the most striking examples of unproductive consumption on a large scale.

that had been burnt. These remarks may be concluded by a very excellent illustration in explanation of this point taken from the writings of M. F. Bastiat: "Have you ever witnessed the anger of the good shopkeeper Jacques Bonhomme, when his careless son happened to break a square of glass? If you have been present at such a scene, you will most assuredly bear witness to the fact, that every one of the spectators, were there even thirty of them, by common consent apparently, offered the unfortunate owner this invariable consolation, 'It is an ill wind that blows nobody good. Everybody must live, and what would become of the glaziers if panes of glass were never broken?' Now this form of condolence contains an entire theory which it will be well to shew up in this simple case. . . . Suppose it cost 6 francs to repair the damage, you say that the accident brings 6 francs to the glazier's trade—that it encourages that trade to the amount of 6 francs—I grant it; I have not a word to say against it; you reason justly. The glazier comes; performs his task; receives his 6 francs; rubs his hands; and, in his heart, blesses the careless child. All this is that which is seen. But if, on the other hand, you come to the conclusion that it is a good thing to break windows, that it causes money to circulate, and that the encouragement of industry in general will be the result of it, you will oblige me to call out, 'Stop there! your theory is confined to that which is seen; it takes no account of that which is not seen.'

"It is not seen that as our shopkeeper has spent 6 francs upon one thing he cannot spend them upon another. It is not seen that if he had not had a window to replace he would perhaps have replaced his old shoes, or added another book to his library. In short, he would have employed his 6 francs in some way which this accident has prevented.

"Let us take a view of industry in general as affected by this circumstance. The window being broken, the glazier's trade is encouraged to the amount of 6 francs; this is that which is seen.

"If the window had not been broken, the shoemaker's

trade (or some other) would have been encouraged to the amount of 6 francs; this is that which is not seen.

"And if that which is not seen is taken into consideration, because it is a negative fact, as well as that which is seen, because it is a positive fact, it will be understood that neither industry in general, nor the sum total of national labour, is affected, whether windows are broken or not.

"Now let us consider Jacques Bonhomme himself. In the former supposition, that of the window being broken, he spends 6 francs, and has neither more nor less than he had before, the enjoyment of a window.

"In the second, where we suppose the window not to have been broken, he would have spent 6 francs in shoes, and would have had at the same time the enjoyment of a pair of shoes and of a window.

"Now as Jacques Bonhomme forms a part of society, we must come to the conclusion, that taking it altogether, and making an estimate of its enjoyments and its labours, it has lost the value of the broken window."

This illustration exhibits the folly of the excuse so often made for waste and luxurious extravagance, *i. e.* that they are good for trade.

A knowledge of one of the first principles of political economy is sufficient to shew that society is no gainer by the reckless expenditure of the spendthrift. This subject cannot, however, be further investigated without entering upon an explanation of the functions of capital. This introduces another branch of the science of political economy, and must be reserved for a future chapter.

Questions on Chapter II. *On Labour.*

1. Shew that labour is indispensable to the production of wealth.
2. Enumerate some of the different kinds of labour necessary to produce such a commodity as bread.
3. Define the exact service rendered by labour to production.
4. What is productive labour?

5. Shew that unproductive labour is often indirectly very productive.

6. How does division of labour increase its productiveness? Quote Adam Smith's three advantages of division of labour.

7. What fourth advantage has been pointed out by Mr. Babbage?

8. Is there any drawback to the usefulness of division of labour?

9. Shew that Free Trade is simply division of labour.

10. What is co-operation of labour?

11. Define simple and complex co-operation.

12. What is Wakefield's theory of colonisation?

13. In what ways does machinery increase the productiveness of labour?

14. What moral agencies increase the productiveness of labour?

15. What is productive and unproductive consumption?

16. Shew by M. Bastiat's example that unproductive consumption does not conduce to national prosperity.

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1. Is the air in a diving-bell wealth, and if so why?

2. Is the labour of a boy writing Virgil for a punishment productive or unproductive?

3. What kind of co-operation of labour is there in a game of cricket, and what division of labour between the different parts of the human body?

4. What are the advantages gained by division and co-operation of labour in games?

5. What is the effect of the division of labour which now universally prevails, on the highest kind of artistic skill; as, for instance, Herr Joachim's violin-playing?

6. Is the co-operation of labour in a game of cricket simple or complex?

7. In a game of cricket is the co-operation of any labour required except that of the players?

8. Is smoking a productive or unproductive consumption of wealth?

9. Would it be good for trade if an earthquake shook down all the houses in London?

10. Would it be good for trade if an explosion of gunpowder blew up the Houses of Parliament?

11. State the economic result of your father's gardener knocking off one of his quarts of beer.

12. What would become of undertakers if people left off dying?

CHAPTER III. *On Capital.*

It is erroneous to suppose that Capital and Money are synonymous. Capital is sometimes spoken of as if it were synonymous with money; if this were so it would not be true that Capital was one of the three requisites of the production of wealth, for money in itself does not assist in the production of wealth. A few pages back the use and functions of money were explained, and if this explanation is borne in mind it becomes evident that money is not identical with either wealth or capital. It must not be forgotten that money is a measure of value and a medium of exchange: in other words that it is a substance which is selected by universal consent to serve as a standard by which the value of all other commodities may be estimated, and which consequently may be exchanged for all other commodities.

A Definition of Capital. Capital may be defined as that part of wealth which is saved in order to assist future production. It is sometimes objected that capital is not really necessary to the production of wealth, because a savage, for instance, may gather the berries and roots on which he subsists without the help of any previously stored up wealth; or a civilised man thrown naked on a desert island may by his labour applied to the land gradually accumulate and create wealth. The objection however is fanciful rather than essential. The moment the savage shapes a flint and uses it as a tool, he is no longer independent of capital; the moment Robinson Crusoe saves back half the berries gathered on Monday to supply himself with food while he works uninterruptedly at his canoe on

Tuesday, he is no longer without capital. It may be stated broadly that in the conditions of modern life and modern industry, capital is one of the requisites of production.

An example of the service which Capital renders to Production. Agricultural operations could not be carried on unless the labourers were supported by wealth which had been previously accumulated. Many months elapse between the sowing of the seed and the time when the produce of that seed is converted into a loaf of bread. It is therefore evident that the labourers cannot live upon that which their labour is assisting to produce; but they are maintained by that wealth which their labour or the labour of others has previously produced. This wealth is Capital. Formerly the service which the wealth produced by past labour rendered to future production was more apparent; because farmers, instead of paying their labourers in money, paid them by giving them so much corn, potatoes, beer, cider, etc. This was called paying "in kind." A somewhat similar method of paying labourers is also known as "truck," which has been restrained and regulated by many Acts of Parliament. The farmer now exchanges his wealth for money, and distributes that portion of it which he gives as wages to his workpeople in money also. Wages are now almost universally paid in money; this money is the representative of wealth previously accumulated, and renders the same assistance to future production as the food with which the labourer was formerly remunerated. Let it then be remembered that the wealth which is distributed as wages to productive labourers is capital, and that it renders an essential service to production by maintaining the labourer whilst he is engaged in assisting future production. It must always be remembered that the money, in which the wages are distributed, is not capital: but the food, clothing, etc., for which this money is exchanged, are capital. Gold and silver cannot of themselves maintain labour; they are useless unless they can be exchanged for the necessaries of life. During the hardships suffered by the French army in the retreat from Moscow, the difficulties of carriage made it necessary to abandon the treasure-chest. Its contents were

seized by some of the soldiers, who filled their pockets and knapsacks with the gold. But they did not keep it long; it was entirely useless in alleviating their wretchedness; the weight of it, in fact, increased their distress. They soon flung it out upon the snow rather than endure the burden of carrying it. This incident illustrates the uselessness of money unless it can be exchanged for commodities which are capable in themselves of supporting life or increasing its pleasures.

It is objected by Mr. Henry George in *Progress and Poverty* that it is fundamentally erroneous to say that wages are paid out of capital. He contends that wages are paid from the value of that which labour produces, and that labour thus produces its own remuneration: he urges that if a labourer is paid 16*s.* for a week's ploughing, it is because a ploughed field has a higher value than an unploughed field, the labourer has created wealth, and the wealth thus created or some part of it is the wages of labour. It is no doubt true that the ultimate source of both wages and profits is the value of that which labour and capital combine to create; but as long as the whole risk of the business is undertaken by the capitalist, who pays to those engaged in the work certain weekly wages for months and sometimes for years before the commodity can be brought into the market, who pays those wages even if the commodity should ultimately prove unsaleable, it seems clear that wages are paid out of capital, that is, out of wealth which has been saved with the object of assisting future production. The Kentish farmer, for instance, pays wages for planting and training hops; he does this because he expects the price he will get for the hops will repay him all he has spent in wages and something more; but this expectation may be disappointed; a blight, a cold June or a July hailstorm may render his crop almost worthless. If labour were paid directly from the value of the commodity it produces, the labourers who planted and trained the hops would in such a case get nothing; but in the present state of society labourers are not in a position to take this risk, they have generally speaking no reserve on which they can live if their labour results in a loss. Hence

they are compelled to sell their labour to the capitalist for a definite price which is probably on an average lower than what they would receive if they could afford to take the risk of the fluctuations of trade: they however secure the advantage, which in their present circumstances is all-important, of a certain weekly income.

The wages-fund. The wealth which is expended in wages is called by some economists the wages-fund. This expression must not be understood to imply that each capitalist possesses a special fund which he must devote to the payment of wages and to no other purpose; but simply *that in the absence of great industrial changes*, each industry requires its wages-capital to be in a certain proportion to its other capital, *i.e.* to its buildings, machinery and raw material: and therefore that an increase in the non-wages capital, if the conditions of industry remain unchanged, necessitates a proportional increase in the wages capital or wages-fund.[1]

It must be remembered that the wealth expended in wages is not all employed to support productive labourers. A considerable proportion of it is distributed to those whose labour is strictly unproductive. Only that portion of the wages-fund which supports productive labour is capital. The wages-fund, therefore, resolves itself into two leading divisions:—1st, that which supports productive labour and forms a part of the general capital of the country; and 2nd, that which supports labour not creative of wealth, and goes in unproductive expenditure.

An example of another service which Capital renders to Production. The maintenance of the labourer is not the only service which capital renders to the production of wealth. All wealth which is set aside to assist future production is capital. Buildings, machinery and tools which assist the production of wealth, constitute capital. Many manufactures cannot be profitably carried on without the erection of large buildings and costly machinery. Take

[1] It is not desirable in an elementary book to enter at length into the controversy on the wages-fund theory. Those who wish to do so are referred to Thornton *On Labour*, pp. 84, 85, Cairnes' *Leading Principles of Political Economy*, pp. 218, 219, and Prof. H. Sidgwick's *Principles of Political Economy*, Chap. VIII, Book II.

for an example the case of the manufacture of woollen cloth. The manufacturer, besides the capital which he requires for wages, must also have a vast amount of capital in buildings, tools and machinery. It must not be supposed that the whole wealth of the manufacturer is capital; a part of his wealth is spent in various luxuries; that part only of his wealth is capital "which he designs to employ in carrying on fresh production." In the words of Mr. Mill, "What capital does for production is to afford the shelter, protection, tools and materials which the work requires, and to feed and otherwise maintain the labourers during the process. These are the services which present labour requires from past, and from the produce of past labour. Whatever things are destined for this use—destined to supply productive labour with these various pre-requisites—are capital."

A demand for commodities not a demand for labour. It was said above that the part of the wealth of the manufacturer which he spends in luxuries does not constitute capital, but that part only is capital which is employed in carrying on fresh production. But it may be said that the wealth which he gives for luxuries maintains labour. If, for instance, he spends £50 upon lace, may it not be asserted that this £50 maintains the labourers who make the lace, and that therefore it is employed as capital, exactly in the same way as if the manufacturer had employed it in his own business?

This brings us to a most important proposition respecting capital, one which it is essential that the student should thoroughly understand.

The proposition is this—A demand for commodities is not a demand for labour.

The demand for labour is determined by the amount of capital directly devoted to the remuneration of labour: the demand for commodities simply determines in what direction labour shall be employed.

An example. The truth of these assertions can best be shewn by examples. Let us suppose that a manufacturer of woollen cloth is in the habit of spending £50 annually in lace. What does it matter, say some, whether he spend this £50

in lace or whether he use it to employ more labourers in his own business? Does not the £50 spent in lace maintain the labourers who make the lace, just the same as it would maintain the labourers who make cloth, if the manufacturer used the money in extending his own business? If he ceased buying the lace, for the sake of employing more clothmakers, would there not be simply a transfer of the £50 from the lacemakers to the clothmakers? In order to find the right answer to these questions let us imagine what would actually take place if the manufacturer ceased buying the lace, and employed the £50 in paying the wages of an additional number of clothmakers. The lace manufacturer in consequence of the diminished demand for lace would diminish the production, and would withdraw from his business an amount of capital corresponding to the diminished demand. As there is no reason to suppose that the lacemaker would, on losing some of his custom, become more extravagant, or would cease to desire to derive income from the capital which the diminished demand has caused him to withdraw from his own business, it may be assumed that he would invest this capital in some other industry. This capital is not the same as that which his former customer, the woollen cloth manufacturer, is now paying his own labourers with; it is a second capital; and in the place of £50 employed in maintaining labour, there is now £100 so employed. There is no transfer from lacemakers to clothmakers. There is fresh employment for the clothmakers and a transfer from the lacemakers to some other labourers. (Mill's *Principles of Political Economy*, vol. I. p. 102.)

This example illustrates the fallacy of the popular notion that luxurious expenditure is good for trade. No benefit is conferred upon the wages-receiving classes by the consumption of luxuries; and if the money given for luxuries be withdrawn from such an employment as farming the labourers suffer in two ways. In the first place, as shewn in the above example, the wages-fund is diminished by an amount corresponding to that given for the luxuries; and in the second place the production of wealth and consequent reproduction of capital are checked.

Another example. This last point can be best explained by another example, which will further illustrate the truth of the assertion that a demand for commodities is not a demand for labour. A farmer sells his wheat for the purpose of purchasing commodities. If these commodities are consumed unproductively, an amount exactly equalling their value is abstracted from the capital of the country. If however these commodities are consumed productively, the capital of the country is increased. In other words, if with the money obtained by selling his wheat the farmer buys velvet, this purchase in no way assists production. It may add to the pleasure and gratification of the purchaser ; but when it is worn out, so much wealth has been consumed without any productive result whatever. If however the farmer uses the money for which he sells his wheat in paying his labourers, they spend it in procuring the necessaries of life ; these are consumed productively, for they maintain the labourer while he is assisting to produce future wealth. In the first case the purchase of the velvet leads to no result beyond the pleasure of the purchaser ; in the second case the purchase by the labourers of bread and beef leads to the reproduction of wealth.

That part of wealth which consists of luxuries cannot be consumed productively, therefore the consumption of luxuries decreases the capital of a country ; for capital is that part of wealth which is set aside to assist future production. But it may be said that the capital of a country is decreased by the persons who manufacture articles of luxury, and not by those who purchase them. This remark would not be made if it were remembered that articles of luxury would not be made if there were no demand for them. A demand for commodities does not increase the amount of capital and labour, but it determines the direction in which they shall be employed.

Another illustration. As a further illustration of the principle just enunciated, let it be supposed that the owner of a valuable picture intended to sell it, in order to buy jewelry. The intended purchase, if it were carried out, would have no more effect upon the wages-fund and the condition of the

labourer, than would be produced if by some accident the picture were destroyed, and in consequence the purchase of jewelry prevented. If the picture were destroyed the demand for jewelry would be diminished by the amount of the value of the picture; the manufacturer of the jewelry would withdraw a corresponding amount of capital from his business; but he would, in all probability, still continue to employ it as capital, and therefore the capital of the country would be neither increased nor diminished.

Another aspect of the subject. It has been shewn that the purchase of luxuries has no beneficial effect upon the wages-fund and the condition of the labourer, but there is still another case to be considered. A farmer, instead of spending £200 in employing labourers to improve his land, spends the same sum in paying labourers for painting, papering and otherwise decorating his house. In each case the £200 goes directly into the pockets of the labourers, and it may therefore perhaps be thought that each employment of the money is equally beneficial to the labourers. The *immediate* result is the same, but the ultimate result may be widely different. In the first case the wages are consumed by labourers who cause a reproduction of wealth, from which capital may be saved, and the wages-fund increased. In the second case the benefit to the labourers cannot extend beyond the time when they are actually receiving the wages; for their labour causes no reproduction of wealth, and consequently it can produce no augmentation of the capital of the country.

Capital is the result of saving. Enough has been said to shew that capital is the result of saving, and not of spending. The spendthrift who wastes his substance in riotous living decreases the capital of the country, and therefore the excuse often made for extravagance, that it is good for trade, is based upon false notions respecting capital. If two tons of coals are consumed in producing an English pine-apple in March, the wealth represented by that coal is wasted, or at any rate it produces only the very inadequate return of giving two or three people a pleasant taste in their mouths for a few minutes. If the same coal had been used to smelt

iron or to make gas, it would have had a much more productive result.

All unproductive consumption decreases the national capital, or tends to prevent its increase. Almsgiving, therefore, confers no benefit on the labourer comparable with a productive expenditure of wealth, which increases the national capital, and consequently augments the wages-fund.

Capital in order to fulfil its functions must be consumed. Though capital is the result of saving, it must not be supposed that hoarded wealth increases the capital of the country. Capital, in order to fulfil its functions, must be consumed. It should be borne in mind that capital is that part of wealth which is set aside to assist future production ; and that the way in which it assists production, is in feeding and maintaining the labourers, and in providing the shelter, protection, tools and materials which the work requires. If this definition is remembered, it becomes evident that all capital is consumed, partially or wholly, in performing its functions. The food which sustains the labourer is immediately consumed ; the buildings, machinery and tools which the work requires are gradually consumed or worn out. It will, however, be at once perceived that the food which sustains the labourer does not perform its functions in the same way as the buildings, machinery and tools. This indicates a very important distinction.

Circulating Capital. A part of the capital employed in any industry, such as that which provides the food of the labourers and the fuel which is consumed in the furnaces, only can perform its function once. This is called circulating capital. The definition of circulating capital given by Mr. Mill is as follows : "Capital which fulfils the whole of its office in the production in which it is engaged, by a single use, is called circulating capital." (*Prin. Pol. E.* vol. 1. p. 112.)

Fixed Capital. Besides the capital which is consumed in giving food to the labourers, or in providing materials and fuel, there is in nearly every industry a large amount of capital in a far more permanent form, such as buildings,

machinery, etc. The plough will fulfil its office, of preparing the earth for receiving the seed, a very great number of times before it is worn out. Buildings which are erected for the purpose of protecting the workmen and the materials of their labour are in a still more permanent form. This sort of capital, which exists in a durable shape, and which is not destroyed by a single use, is called fixed capital.

The whole return upon circulating capital is immediate; the return on fixed capital is extended over the period during which the capital is used. The entire value of the circulating capital together with the profits upon it are replaced by the value of the immediate product; whereas in the case of fixed capital, the value of the immediate product only covers so much as is worn out together with the profit on the whole. The farmer looks to obtain by the sale of his crops a full and immediate return for all the capital which he has used in paying his labourers, and in procuring seed. But if he purchases a steam plough he will use it a great number of times and for many successive years, and the return upon the original expense will therefore be extended over as long a period as the plough is used.

This fact explains the reason why labourers are often temporarily injured by the conversion of circulating into fixed capital. The wages of labourers, called the wages-fund, are, as before stated, circulating capital; therefore any circumstance which decreases the amount of circulating capital must cause a corresponding decrease in wages. For example, if a manufacturer withdraws circulating capital to the amount of £1000, for the purpose of buying machinery, a considerable number of men are thrown out of employment, whose competition in the labour market must cause a fall in wages.

The injury to the labourer is, however, only temporary in most instances, where circulating capital has been converted into fixed capital. The introduction of machinery vastly increases the reproductive power of labour, and it therefore causes a rapid augmentation of capital; the wages-fund is in consequence ultimately increased. As an example it may be mentioned that the capital which was needed for the

construction of the railways in England was probably in part withdrawn from the circulating capital of the country. The labourers consequently suffered through a temporary reduction of the wages-fund. But the wealth of England has been so immensely increased by the construction of railways that the ultimate result has been to increase the demand for labour, and thus to raise wages. Consequently, the temporary injury to the labourer has been more than compensated.

The unemployed. The history of industry in this country during the last quarter of a century has been characterised by a very rapid development of the use of labour-saving machinery; in other words there has been a transfer, in a very large number of trades, from circulating to fixed capital; consequently the proportion of wages-capital to the total capital employed in trade has tended to grow smaller. A few examples of the effect of the introduction of labour-saving machinery may here be quoted from addresses given in 1887 and 1888 by Lord Playfair. In making boots and shoes, five-sixths of the labour formerly used has been dispensed with; in milling corn, the diminution has been three-fourths; in making agricultural implements 600 men could in 1888 turn out as many machines as in 1873 were turned out by 2145 men. In 1870 steam-ships required 47 hands for every 1000 tons burden; in 1888 only 28 were required. In the cotton trade, the speed of the spindles was, in 1874, 4000 revolutions a minute; in 1885 the speed had increased to 10,000 revolutions a minute. These and similar changes, covering almost the whole field of industry, are producing an effect very similar to that which was produced by the first introduction of steam machinery; the country as a whole is richer, and the working classes share to a large extent the advantages derived from the increased facilities of production; but the displacement of labour by machinery has fallen with great severity upon certain sections of the working class. When almost every given operation of trade causes the employment of fewer workmen, the least skilled, the least steady, the least industrious, the least trustworthy, the least strong, are certain, by a process of natural selection,

to be the first to be thrown out of work. To such circumstances as have been here referred to, may be attributed in part, if not wholly, the demonstrations of "the unemployed" which characterised the winters of 1886, 1887, 1888, and 1903 in London, and in nearly every large centre of population all over England.[1]

There are two motives which produce a desire to save. It has already been remarked that Capital is the result of saving. It is therefore evident that increased capital implies increased saving. The desire to save differs in intensity in different ages and countries. It is generally produced by two motives :—First, a prudent foresight for the future ; secondly, the desire to acquire wealth by investments. In this country both these motives act with great force ; this is partly owing to the national character and the habits of the people, and partly to the security of life and property which exists here. In uncivilised communities a desire to save is scarcely ever prevalent. This arises from the inability of uncivilised persons to look forward to the future ; with such the present is everything ; the future is a blank about which they do not trouble themselves. The desire to save is also checked in some cases by the insecurity of property. In those countries where there is no settled government, the owner of wealth is by no means sure that he will be allowed to retain his possessions. He is the object of the envy and rapacity of his neighbours, every one of whom is perhaps looking out for an opportunity of robbing him.

Joint-Stock Companies. In a country like England the desire to save is promoted by the variety of means of

[1] The problem suggested by the words "the unemployed" is by no means easy of solution. Many causes probably combine to produce it. One of these may be the development of the power of trades' unions, and the stringency with which they insist on a given rate of wages in a given trade, no member of the union being allowed to receive less. In such cases the rate of wages fixed by the union may fairly represent the value of an average man's labour ; but if a man through age, illness, intemperance, or any other cause falls below this average, he ceases to be worth the trades' union rate of wages, and as he must not receive less he very often cannot be employed at all, and is added to the ranks of the unemployed.

investing small capitals, which if separately applied would not often be productive of wealth. If a professional man, for instance, has saved £100, he has probably neither opportunity nor inclination to employ this sum in any business, but if he wishes to use it as capital he can invest it in a joint-stock company; that is, a mercantile undertaking the capital of which is provided by a large number of persons. It is therefore evident that joint-stock companies are advantageous to the country by the facility they afford for increasing the amount of wealth which is used as capital. The amount of actual paid-up capital of registered joint-stock companies in the United Kingdom increased nearly threefold between 1888 and 1902, viz. from over £600,000,000 to over £1,800,000,000.

There are no means available for testing the total amount of savings which are made annually, but the sum deposited in the Post Office and Trustee Savings Banks shewed a very marked increase between 1888 and 1902. In the former year the total due to the depositors was £104,961,000 and in the latter year £197,110,000. This indicates the existence of a large margin between income and necessary expenditure, which may be used as capital to promote the production of wealth.

The honesty and trustworthiness of commercial men have a great and obvious influence on the use of savings as capital. If people lose their money in fraudulent companies they are less desirous of saving in the future. They say to themselves, "It is better to spend all I have, than to throw money away upon companies like those promoted by a Whitaker Wright or a Jabez Balfour."

A Glut of Capital. Some persons imagine that no harm is done by checking the supply of capital, for they say that if it were not for circumstances of the kind just described, and the luxurious expenditure of the rich, there would be more capital than could be employed; or, in other words, there would be "a glut of capital." If the nature of capital is borne in mind it will be seen that it is quite unnecessary to fear any evil results from the increase of capital. It has been frequently stated that capital is that

part of wealth which is set aside to assist future production, by providing the shelter, protection, tools and materials which the work requires, and by feeding and otherwise maintaining the labourers during the process of production. If the supply of capital is increased, it will be engaged in some fresh employment, or else it will be absorbed in the industries already existing. In both these cases there will be a greater amount of circulating capital, and the wages-fund will be augmented; unless therefore the increase in the wages-fund is counterbalanced by a corresponding increase in the numbers of those among whom the wages are distributed, wages will rise, and the condition of the labouring classes will be improved.

It is therefore evident that any circumstances which increase capital tend powerfully to ameliorate the condition of the poor. The most important practical conclusions may be drawn from this fact, for it shews that the capitalist, and not the spendthrift or the almsgiver, is he who renders the truest service not only to himself, but to the whole community.

The principal propositions concerning the Production of Wealth have now been stated, in the three chapters on Land, Labour and Capital. The explanation of the functions of capital has probably presented some difficulty to the beginner. It is essential that these difficulties should be overcome; for until they are thoroughly mastered it is impossible clearly to understand the more complicated questions which will be discussed in the section on the Distribution of Weath.

Questions on Chapter III. *On Capital.*

1. What is Capital?
2. Shew by examples that capital is a requisite of production.
3. What is meant by the wages-fund?
4. Define the various ways in which capital assists production.
5. Prove that the wealth consumed in luxuries is not capital, and does not therefore assist production.

6. Prove by examples that a demand for commodities is not a demand for labour.

7. Why is it erroneous to suppose that luxurious expenditure is good for trade? Give examples.

8. Capital is the result of saving, but does hoarded wealth add to the capital of a country?

9. What is the difference between fixed and circulating capital?

10. Of what does circulating capital principally consist?

11. In what way are labourers sometimes temporarily injured by the conversion of circulating into fixed capital?

12. What circumstances produce and foster a desire to save?

13. How does commercial morality act upon the accumulation of capital?

14. What is meant by a "glut of capital"?

15. Shew that the danger of a glut of capital is imaginary.

16. Prove from the propositions enunciated in this chapter that the capitalist is the real benefactor of the wages-receiving classes, and not the spendthrift or the almsgiver.

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1. Is my ink capital? If I have 500,000 gallons of it, is that a glut of capital?

2. Is a cart-horse capital? And if so, is he fixed or circulating?

3. Are fire-arms capital?

4. If a boy consumed a shilling's-worth of penny tarts every day, would he cause an increased demand for labour?

5. If a man kept £5000 shut up in a box, would it be capital?

6. If he invested it in a railway, would it be capital?

7. If he invested it in a loan to a nation to enable it to carry on a war, would it be capital?

8. If there is a law which permits one class of persons to rob another class without affording the latter any redress, what effect does this law have on the accumulation of wealth?

9. Is the labour of a cook productive or unproductive?

SECTION II

On the Exchange of Wealth.—Introductory Remarks

Exchange implies the existence of private property. The expression "exchange of wealth" implies the existence of property. It also implies that property is possessed not by society at large but by individuals and classes. If property were possessed by the whole community in the same way as that described in "The Acts of the Apostles" as the custom of the early Christians, there could be no such thing as exchange of wealth. "Neither said any of them that aught of the things which he possessed was his own; but they had all things in common." "Neither was there any among them that lacked: for as many as were possessors of lands or houses sold them, and brought the prices of the things that were sold, and laid them down at the apostles' feet: and distribution was made unto every man according as he had need."

Socialism. If the state of things described in these verses were general the dream of the socialist would be realised. Property would not be destroyed, but "the exchange of wealth" would be a meaningless expression, for no one could exchange that which belonged as much to every one else as to himself. The exchange of wealth consequently implies the existence of individual property; it might therefore have appeared appropriate to discuss the laws of the distribution of wealth among certain classes and persons, previous to explaining that which is comprehended under the term "exchange of wealth." The opposite course

has however been here adopted, because until the meanings of the words "value" and "price" are properly understood, and until the causes which regulate the value of commodities are thoroughly grasped, it will be difficult to present in a short space a clear view of the circumstances which determine the distribution of wealth into rent, wages and profits. It is therefore proposed in this section to explain the meaning of the terms value, price and cost of production, and to state the causes which determine the value of three classes of commodities, viz. those whose number is absolutely limited; those which cannot be increased without increasing the cost of producing them; and those which can be increased without becoming more expensive. The nature and functions of money will also be explained.

Before closing these preliminary remarks it is perhaps desirable to revert to the subject of socialism alluded to on the previous page. The fundamental idea of socialism is that individual property ought not to exist; that all ought to labour to the extent of their capabilities, and to receive in proportion to their needs, not in proportion to work done.

Modern Socialism, which has become a not inconsiderable force in recent years, demands the nationalisation of the land and of all the instruments of production, that is of all capital. Karl Marx may be regarded as the founder of modern Socialism, and his work *Das Kapital* is its chief text-book. Modern Socialism, which is frequently spoken of on its economic side as "collectivism," has in England taken the practical form of promoting the transfer to the State or the municipality of various duties and responsibilities hitherto devolving on the individual. Its adherents wish the State to fix the hours of labour, the rate of wages, and other conditions of employment; they also favour the acquisition of property and industrial enterprises, with or without compensation to their present owners, by the State or the municipality, as leading in the direction of the realisation of their scheme for the complete nationalisation of the land and all the other instruments of production. In every country some duties and responsibilities are discharged by the individual, and some by the community collectively.

The division between individualism and collectivism is by most people regarded as a matter of expediency : the modern socialist regards it as a matter of principle, and loses no opportunity of minimising the responsibilities of the individual and magnifying those of the State. He looks forward to a time when the State, having acquired all the land and all the instruments of production, shall be the absolute arbiter of the supply of all commodities ; he is confident that this would cause all poverty to cease to exist ; competition would vanish, every one would work for a short time daily (generally estimated at from two to four hours) ; all wants would be amply supplied, and every one would enjoy abundant leisure. With the millennium thus existing in his imagination, he contrasts the existing state of society, usually exaggerating its defects and shutting his eyes to its merits. It should however be remembered that the evils of our present social system, whatever they may be, are, in the main, produced by defects in human nature, such as sloth, vanity, greed, selfishness, self-indulgence and the like ; and that as long as these exist they will bear their crop of ensuing misery. The modern socialists have not shewn that their system will cut at these roots of moral and economic evil. On the contrary, some of them, by attacking marriage and the family, and by desiring to weaken parental responsibility, have sought to undermine what is morally the strongest part of the existing constitution of society. They would also take away what is economically the strongest motive which induces men and women to overcome their physical and mental repugnance to hard work—the desire to provide for their own wants, and the wants of those dependent on them. In newly settled countries the stupendous labour that is required to "subdue the earth" and render it productive will not be undertaken at all unless the settler can look forward to becoming the owner of the soil ; nothing less than that is sufficient to induce him to overcome his natural repugnance to the years of privation and unintermitting toil, necessary to make it into a homestead yielding sufficient for the support of a family.

It must not be overlooked that every individual is capable

of performing many different kinds of labour which are productive of well-being to the community in very different degrees. The community benefits not so much by exacting a certain amount of task work from each of its members, as by anything that stimulates each of them to do the best kind of work of which he is capable. For example, Count Leo Tolstoi, the Russian socialist, is a writer of fiction of the very highest order of merit. His novels have been translated into every European language, and are part of the most valued literary treasures of modern times; but under the *régime* of voluntary socialism to which he has submitted himself he now employs himself in shoe-making. The world is undoubtedly the poorer that Count Tolstoi can satisfy his conscience, which tells him it is his duty to labour, by sitting at his cobbler's last, instead of doing intellectual work of which perhaps not five other men in Europe are capable. If the wants of every man and woman are to be satisfied, as the collectivists promise, by a few hours of daily mechanical toil, the inducement to face and overcome the difficulties of the higher kind of production will be enormously, and perhaps fatally, weakened.

The economic defects of Socialism. There are many economic objections to be urged against socialistic schemes. In the first place self-interest, one of the most powerful of all the incentives to exertion, is only partially operative; a man will not work with the same energy and zeal if the results of his labour are to be shared by the whole community of which he is a member, as he will if he is able to secure the whole fruit of his toil for himself and his family. In the second place the existing checks to improvidence and recklessness, with regard to the future, are withdrawn. All the members of the socialistic society are supposed to be actuated by the loftiest sense of duty to their fellow-labourers. In the present order of things a poor man has to work hard to keep himself and his family, if he has one, from want; he knows that every additional child that he has will for some years be a constant source of expense; he therefore has the most powerful incentives to exertion and providence. But in a socialistic society such a man would

know, whether he worked energetically and unceasingly or slowly and irregularly, that he and his family, however numerous it was, would be maintained ; he would also know that it was quite unnecessary to make any provision in case of his own death, for his family would never be allowed to want. Ebenezer Elliott, the Corn-Law Rhymer, satirised the defects of communism in the following verse :

> "What is a Communist? One who hath yearnings
> For equal division of unequal earnings ;
> Idler or bungler, or both, he is willing
> To fork out his penny and pocket your shilling."

A recognition of the tendency of socialism to weaken the prudential restraints on population led to the adoption in all the American communistic societies of the most absolute control over marriage and the number of births. Two of the most prosperous of the American socialistic communities are strictly celebate; in others celibacy is honoured and encouraged: and even in those societies where the opposite principle prevails the governing body limits or promotes the natural growth of population as the prosperity of the community declines or increases, with as much ease as an English Chancellor of the Exchequer increases or reduces the income tax. It would therefore seem that in avoiding the economic defect of weakening the prudential restraints on population, practical communism runs into the equally serious political defect of destroying individual liberty, and encouraging an amount and kind of government control which a free people would find quite intolerable. This was notably the case in the socialistic constitution of Sparta, where the most minute affairs of daily life were watched and controlled by the central authority of the State.

Notwithstanding these radical defects in socialism the upholders of the present state of things ought not to condemn it as a monstrous and wicked absurdity. The present system does not work so well as to be absolutely incapable of improvement ; and though it may not be thought desirable that an alteration of existing economic arrangements should be made in the direction of socialism, we ought to be ready to admit that some improvement is necessary in a community

in which a considerable proportion of the population are either paupers or are on the brink of pauperism. It ought also to be remembered that some of the characteristic defects of communism are embodied in the existing state of society. The Poor Law system is practically socialistic. The system of paying workmen fixed weekly wages stimulates the motive of self-interest even less than it is stimulated in a communistic society. It is often remarked that workmen paid in this way only seem to care how little work they can do, and at the same time avoid dismissal. The remuneration of many of the servants of the State does not depend upon work done. Clergymen and ministers of State receive the same pecuniary rewards, whether they do their work ill or well, and in some cases if they leave it undone altogether. These remarks are not made in order to uphold socialism, but to shew that the proposals of the socialists should not be looked upon with hatred and derision, but should receive respectful consideration from all who desire freedom of discussion and action. If the defects of the existing system were borne in mind, and if it were also remembered that the early Christians were among the many religious societies who have practised socialism, it may reasonably be supposed that the denunciation of socialistic doctrines would be less passionate and declamatory.

Space does not permit a description of the various modifications of socialistic doctrines which have been propounded in France by Fourier and St. Simon, and in England by Robert Owen. For a detailed and most interesting account of these schemes, and of the manner in which modifications of them have been carried into practice in the American Communistic Societies, the reader is recommended to turn to M. Reybaud's *Les Réformateurs Modernes*, to Mr. A. J. Booth's works on Saint-Simon and Robert Owen, and to Mr. Nordhoff's *Communistic Societies of the United States*. There is also a short and interesting sketch of the leading socialistic schemes of the last century in Mr. J. S. Mill's *Principles of Political Economy* (pp. 245—263, vol. I.). It is important to remember that socialism, or, as it is sometimes called, communism, has no connection with the principles of

the *commune* of Paris. The name that was given to the Parisians who, in the year 1871, resisted the authority of the Versailles Government, was derived from the demand they made for *the communal, i. e.* municipal, independence of Paris. None of the leaders of that party upheld socialistic principles.

Questions on the Introductory Remarks of Section II. *On the Exchange of Wealth.*

1. What is Socialism?
2. Describe the modern doctrine of "Collectivism."
3. What economic disadvantages are connected with Socialism?
4. Name some of the principal promoters of socialistic theories.

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1. Do you think Socialism would interfere with the present division of labour? If every one received the same reward, who would do the disagreeable work?
2. If Socialism caused diminished production and a multiplication of the consumers of wealth, would it ultimately benefit even the very poorest?

Chapter I. *Value and Price.*

A thorough comprehension of the terms "value" and "price," their difference, and their relation to each other, is essential to a firm grasp of nearly all economic truths.

Definition of Value. The value of any commodity is estimated by comparing it with other commodities, or by ascertaining the quantity of other commodities for which it will exchange. Thus if a pound of tea will exchange for two pounds of beef, it may be said that the value of a pound of tea is two pounds of beef. It is therefore evident that the term "value" implies a comparison; for when it is said that the value of a pound of tea is two pounds of beef a comparison is made between beef and tea.

As value implies a comparison, it is also evident that the value of a commodity varies from either of two causes—from something having its source in the particular commodity, or

from something having its source in the commodities for which it is exchanged; or, as it has elsewhere been expressed, the value of a commodity varies from either intrinsic or extrinsic causes. For instance, tea may increase in value through a diminution in the supply; this would be a variation produced by an intrinsic cause. Or it may increase in value owing to a decrease in the value of some commodity for which it is exchanged, such as cloth; this would be a variation produced by an extrinsic cause. From this conception of value as a relation existing among commodities in general, it necessarily follows that there never can be a general rise or fall in values. For the expression "a general rise in the value of commodities" implies that all commodities will exchange for more of all other commodities; and this is as absurd as saying that every tree in a garden is higher than every other tree. When there is a rise in the value of any commodity there is a corresponding fall in the value of some other commodity. Thus if it is said that the value of meat is greater now than it was twenty years ago, it is virtually affirmed that a given quantity of meat will now exchange for a larger quantity of some other commodity, such as corn, than it would twenty years ago. In this case the value of corn as compared with meat has declined. Value also implies exchange, for it is by ascertaining the number of other commodities for which any particular article will exchange, that its value is determined.

Barter as a medium of Exchange. In some primitive communities all buying and selling is carried on without the use of money, by the direct exchange of commodities. Thus if one man had more food than he wished to consume he would seek to exchange it with some other man who could give him in return some article which he required, such as a canoe or a set of bows and arrows. This method of exchange, some modern examples of which could be suggested by any schoolboy, is called barter; it is necessarily very clumsy, and as long as it is the sole means of exchange in any country commerce is always extremely restricted. The inconvenience arising from barter suggested the use of money. A substance was by universal consent selected to

serve as a measure of the value of all other commodities and also as a medium of exchange. By the use of this substance the necessity of barter was obviated. The man who had more oxen than he required and who wished to obtain clothing or armour in exchange for them, was no longer obliged to seek some other man who was willing to make such an exchange with him; he simply had to sell his oxen to any one who was willing to purchase them for so much money; and with this money he could purchase the other commodities which he required from any persons who were willing to dispose of them.

A Definition of Price. The value of a commodity estimated in money is termed its price. Price, therefore, has been defined as a particular case of value; for, as previously stated, the value of a commodity is estimated by the quantity of other commodities for which it will exchange. If therefore a commodity, such as a yard of cloth, will exchange for five shillings, it may truly be said that the value of a yard of cloth is 5*s.*; but because money has been selected to serve as a universal measure of value and medium of exchange, it is more convenient to give another name to its exchange power. The sum of money for which a commodity will exchange is therefore called its price.

When the price of a commodity such as meat is spoken of, a comparison is made between meat and the precious metals; but when the *value* of meat is spoken of, a comparison is made between meat and all other commodities. Hence it is evident that though there cannot be a general rise or fall in values, there can be a general rise or fall in prices, because it is quite possible that various circumstances might cause all commodities to exchange for an increased or decreased amount of money. For instance, if the money circulating in any particular country were suddenly doubled, while population and trade remained stationary, there would inevitably be a general rise in prices.[1]

[1] It is estimated that during the war in South Africa, 1899-1902, £41,000,000 sterling was added to the circulation. This in itself goes far to account for the inflation in prices in the years immediately succeeding the conclusion of peace.

From the above definitions it is proved that the value of all commodities except money would not necessarily be affected if prices were doubled or trebled. Such an event would not effect any change in the relations of various commodities to each other. If, formerly, a yard of velvet was worth 3 lbs. of tea, the relative value of these commodities would not be disturbed if the tea were 4*s.* instead of 2*s.* a lb., and the velvet 12*s.* a yard instead of 6*s.* It is therefore evident that a rise or fall of general prices does not affect the value of any commodity except money. If there is a rise in prices an increased amount of money has to be given in exchange for commodities ; or, in other words, the value of money has decreased. If, on the other hand, prices fall, the same amount of money will exchange for an increased quantity of other commodities, or, in other words, the value of money has increased. These considerations, however, lead to a further explanation of the nature and functions of money, which must be deferred to the next chapter.

QUESTIONS ON CHAPTER I. *Value and Price.*

1. What is value ?
2. Prove that there cannot be a general rise or fall in values.
3. What is meant by bartering commodities ?
4. By what means has the necessity for barter been obviated ?
5. What is price ?
6. Can there be a general rise or fall in prices ?
7. If prices were suddenly doubled, what would be the effects of such a change on the value of commodities ?

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1. Is a rise in the value of bread resulting from a bad harvest produced by an extrinsic or an intrinic cause ?
2. Is a country richer if the prices of all commodities rise ?

CHAPTER II. *On Money.*

The Functions of Money. In the last chapter the inconvenience of a system of barter was described, and it was stated that the necessity of this system of exchange had been obviated in all civilised countries by the use of money. This is to say, that a substance has been selected by which to measure the value of all other substances, and also to serve as a medium of exchange. If a substance had not thus been selected as a measure of value, there would be no means of stating what the wealth of an individual was, but by repeating a catalogue of all his possessions. Thus in the first chapter of the Book of Job, the wealth of Job is described in this manner, "His substance also was seven thousand sheep, and three thousand camels, and five hundred yoke of oxen, and five hundred she asses, and a very great household." But if it were now asked what the wealth of a country like England was, it would be almost impossible to give a reply, if it were necessary to enumerate all the articles which the nation possessed. It would also be very difficult to say how much wealth an individual possessed if there were not a measure of value. It would, for instance, be necessary, in stating the wealth of a rich nobleman, to enumerate the number and height of the trees on his estates, the amount and description of furniture in his houses, the number of horses, carriages, etc., that he possessed: it would take weeks to make an inventory of his possessions; and after all a perusal of it would afford no definite notion of his wealth.

This disadvantage is obviated by the use of money, for the wealth of individuals and nations is now measured by the standard of the precious metals, and is said to be so many thousand or so many million pounds.

The convenience of the use of money as a medium of exchange has already been dwelt upon, when the nature of barter was explained. It was then stated that a country can never reach a great commercial position until barter is superseded by the use of some more convenient method of exchange. Money was aptly described by the late Professor

Bonamy Price as a tool for effecting exchanges, just as a hammer is a tool for driving nails. It is possible to exchange commodities without using money either as a measure of value or a medium of exchange; but in such a case the transaction is so cumbrous and clumsy that it may be very well compared to the attempts of a carpenter to work without his tools.

It is evident that the substance selected as money must be easy to carry about. A system of barter would hardly be more prejudicial to the interests of commerce than the use of a substance as money—such as wood, or iron as in Sparta—which does not contain great value in small bulk. If such a substance were used as money it would be necessary, when making even small purchases, to be followed by a horse and cart carrying one's money. These considerations prove that it does not necessarily happen that the substance selected as money should be either gold or silver; these commodities have usually been chosen in civilised countries because they possess in a peculiar degree the combination of qualities desirable in any substance acting as a measure of value and as a medium of exchange.

Various Substances have been used in different Countries as Money. Though gold and silver have been generally selected as the substances best fitted to be used as money, yet some countries have used other commodities in the same capacity. The Chinese formerly used pressed cubes of tea; some African tribes use a particular sort of shells; the Greeks, the Arabs and many other ancient nations have used cattle;[1] salt has also been used as money in Abyssinia; and hides and dressed leather in other countries. But it may perhaps be stated, that experience has proved that gold and silver more perfectly fulfil the functions of money than any other substances. For it must be remembered that the substance selected as money must serve as:—

1st, A general standard of value.

[1] It is well known that the English word "pecuniary" is derived from the Latin "pecus" = cattle; and also that the words "cattle," "chattel" and "capital" are all derived from the same root, "caput" = head.

2nd, A general medium of exchange.

The substance selected as Money should possess seven Qualities.

The late Prof. Jevons in his book called "Money" enumerated seven qualities which should be possessed by the substance selected to serve as money. These are :

1. Intrinsic Value.
2. Portability.
3. Indestructibility.
4. Homogeneity.
5. Divisibility.
6. Stability of Value.
7. Cognizability.

The 1st quality is Intrinsic Value. The importance of the first of these qualities is easily recognised. The substance selected to serve as money should be valued for its own sake, not merely in its capacity as a medium of exchange and measure of value. If money were not composed of a substance which is generally prized, it would not be universally accepted in exchange for other commodities. It may be thought that the circulation of bank notes is an exception to this rule : but the exception is apparent only. A bank note represents gold : it is a promise to pay gold on demand : and it is only when the public have perfect confidence that this promise will be kept that notes are accepted as equivalent to the sum of money which they represent. From various causes gold and silver have always been greatly valued, even in the most barbarous countries and in the most remote ages of antiquity. Their brilliancy, great durability and malleability have caused them to be much prized for purposes of decoration and ornament in all ages and among all nations. For these reasons gold and silver possess in an eminent degree the first quality (intrinsic value) which should characterise the substance selected to serve as money.

The 2nd quality is Portability, or, as it is sometimes expressed, great value in small bulk. The fact that gold and silver fulfil this condition in various degrees, is manifest. The difficulty of procuring gold and silver, their consequent rarity, and the fact that they are universally prized, contribute

to enhance their value. There are other substances, such as diamonds and other precious stones, which contain a very far greater value in a much smaller bulk; but diamonds would be a most inconvenient substitute for money; a diamond the size of a pin's head might be worth from 20*s.* to 30*s.*, and the inconvenience of handling such small objects and the danger of losing them would be insuperable obstacles to using diamonds as money instead of gold and silver. It is therefore evident that though the substance selected as money should contain great value in small bulk, the difference between the bulk and the value of the substance should not go beyond a certain point. Gold would be extremely unfit to make small payments with. A piece of gold of the value of sixpence would be almost as inconvenient a substitute for a silver sixpence as a diamond would be for a sovereign. In the same manner silver could not take the place of our copper coinage. In India, where there is no gold coinage, the inconvenience of carrying sufficient silver money for current expenses is very great, and leads many people to carry a cheque book instead of a purse, and pay for everything with cheques.

The 3rd quality is Indestructibility. This is one of the most obviously necessary of all the seven qualities. If the pupil tries to imagine the inconvenience of using some perishable and easily damaged commodity as money, he will easily appreciate the importance of money being comparatively indestructible. If, for instance, one's cash consisted of eggs or cream, an accidental fall or a thunder-storm might destroy its value and consequently its exchange power. Gold is in a special degree indestructible, although no substance is entirely so. Neither fire nor water destroy or corrode gold. The golden ornaments discovered by Dr. Schliemann which had been buried for thousands of years were as brilliant and perfect as new gold.

The 4th quality is Homogeneity. This means that the substance used as money should be of an uniform quality, otherwise it would fail to have uniformity of value. Gold and silver can be reduced by the processes of refining to exactly the same degree of fineness; so that one ounce

of gold is of exactly the same value as another ounce. Precious stones would be a very inconvenient substitute as money for gold and silver, because they do not possess homogeneity. The value of a diamond depends in part on its brilliancy and colour, and these vary very much; so that it does not at all follow that two diamonds of equal weight and size and equally well cut have equal values.

The 5th quality is Divisibility, without loss of value. Two half-ounces of gold are exactly equal in value to one ounce, but with many substances division would greatly reduce the value. With rough diamonds, for instance, the rule for finding the value is to square the number of carats and multiply by the value of one carat. Thus taking the value of one carat to be two pounds, we find a diamond of 6 carats to be worth £72, and a diamond of 12 carats to be worth £288; $6 \times 6 \times 2 = 72$. $12 \times 12 \times 2 = 288$. It therefore appears that a diamond of twelve carats could not be divided into two of six carats each without losing half its value.

The 6th quality is Stability of Value. This uniformity of value is of great importance with regard to the first function of money, *i.e.* to act as a general standard of value. It is impossible from the nature of things that there should be any absolutely invariable standard of value. It was one of the economic schemes originated by Robert Owen to make labour the standard of value, and to enact that a fixed and uniform value should always attach to an hour's labour. It is obvious, however, that the value of labour is more variable than almost anything else that could have been thought of; and that there is no reason either in justice or common sense why an hour's labour from such a man as Sir Joshua Reynolds should exchange at an equal value for an hour's labour of the man who blacked his shoes. Owen's Labour Exchange, which had a short-lived popularity in the year 1832, was soon broken up through its inherent error of valuing all labour alike.

All substances known to us are liable to variations in their value. The utmost that can be obtained, therefore, in the substance selected as money is that the variations

in value should be slight and gradual. If the value of the substance selected as money fluctuated very rapidly, the terms of every monetary contract would be disturbed. Suppose, for instance, wheat was selected as a general standard of value; in this case if *A* borrowed 10,000 qrs. of wheat from *B*, promising to pay him at the end of six months, when the time to pay arrived the value of wheat might have increased or decreased, owing to quite unforeseen circumstances, as much as 20 or 30 per cent. If the value of wheat had increased 30 per cent. *A* would virtually have to repay to *B* 30 per cent. more than he borrowed; because the same quantity of wheat would exchange for 30 per cent. more wealth than it would have done six months before. If therefore the value of the substance selected to serve as money were subject to sudden fluctuations, every commercial transaction would be reduced to a gambling speculation, for no one could with certainty foretell what would be the value of money in a few months' time.

The value of gold and silver varies less than that of almost any commodities which also possess the other characteristics which qualify a substance to fulfil the functions of money.

The 7th quality is Cognizability. It should be easy to recognise if money is genuine. The sound which gold makes when rung on the counter is a ready test which is often used: the absence of smell or taste is another way of distinguishing false coin from true. In order to ensure cognizability the substance used as money should be *coinable*, and the coining of money should be performed by the Government; the whole credit of the State is then pledged to ensure that the standard money in circulation is of full weight and of a given fineness of metal.

It will be evident on consideration that many of the seven qualities just enumerated react upon each other. For instance, the portability and the indestructibility of gold are among the principal causes of its possessing the 6th quality:—stability of value. A commodity which is very bulky in proportion to its value, commands very different prices in different localities: coal, for instance, is frequently 6*s.* a ton

at the pit's mouth and at the same time £1 2*s.* 0*d.* a ton in London. But if a commodity can be transferred at a trifling cost from the place where its value is lower to that in which it is higher, a tendency is constantly in operation to preserve approximate uniformity of value. So also with the quality of indestructibility. All commodities which are perishable or the annual supply of which is ordinarily consumed within the year are liable to great fluctuations of value. A perishable commodity such as fresh fish must be sold within a limited period. Customers must be had at any price, and accordingly in Billingsgate market the price of fish often varies on the same day 50 or 100 per cent. Corn is not easily destructible if it is well stored, but it is liable to great variations in value owing to the fact that the annual supply is ordinarily consumed within the year; if the corn harvest all over the world is 30 per cent. short of the average, the whole of the world's supply of corn for the year would be reduced by 30 per cent., and the rise in value of corn would be enormous. But if the annual supply of gold fell off 30 per cent. the effect on the value of gold would hardly be felt at all, because the diminution in the annual supply of 30 per cent. would only affect to a very trifling degree the entire stock of gold in the world.

An illustration from M. Bastiat. An immense number of fallacies have been committed under the idea that money is the sole source of wealth. Every one knows that the more money he has the richer he is, and this has led to the conclusion that the more money there is in circulation the richer will be the community which possesses it. The error of this conclusion is well illustrated by the following example of M. Bastiat:—"Ten men sat down to play a game, in which they agreed to stake 1000 francs. Each man was provided with 10 counters, each counter representing 10 francs. When the game was finished, each received as many times 10 francs as he happened to have counters. One of the party, who was more of an arithmetician than a logician, remarked that he always found at the end of the game that he was richer in proportion as he had a greater number of counters, and asked the others if they had observed the same thing.

'What holds in my case,' said he, 'must hold in yours, for what is true of each must be true of all.' He proposed therefore, that each should have double the former number of counters. No sooner said than done. Double the number of counters were distributed; but when the party finally rose from play, they found themselves no richer than before. The stake had not been increased, and fell to be proportionally divided. Each man, no doubt, had double the number of counters, but each counter, instead of being worth 10 francs, was found to be worth only 5; and it was at length discovered that what is true of each is not always true of all."

There is not a Double Standard in this Country. It may be thought that as in this country there are gold, silver and copper coins in circulation, there is not only a double, but a treble standard. This is not, however, the case. The silver and copper coinages are subsidiary. Their representative value is greater than their intrinsic value. If the silver contained in twenty shillings were melted down, its exchange value would be less than £1 sterling. Two new half-crowns weigh one ounce; but the price of silver, which is quoted almost daily in the newspapers, has for many years been much lower than 60*d.* per ounce. The present price (January 1904) is 27⅛*d.* per ounce. The English silver and copper coins are issued and used because they provide a convenient means of making small payments; but they are not legal tender beyond a certain amount. No debt of more than 40*s.* can be discharged in silver unless the creditor consents; and, in the same way, no debt of more than 1*s.* can be discharged in pence. The bronze of which pence and half-pence are made is worth about 10*d.* per pound troy, and this weight will make nearly 40 pennies. The Government therefore make a profit on all the silver and bronze coins they issue. These subsidiary or token coins are really akin in their nature to bank notes, in so far as their intrinsic value is less than their nominal value. Great injustice would be done if it were attempted to make these token coins legal tender for an unlimited amount, but as it is no one is injured; the Government make a profit which renders it possible to

convert gold bullion into coin free of charge, and this profit also renders the Mint more than self-supporting, while the public are supplied with a much more convenient coinage than they would have if every penny contained bronze of the value of $\frac{1}{240}$th part of a pound sterling; for in this case every penny would weigh about two ounces (as much as four half-crowns), and the inconvenience of carrying such coins would be felt by every one. Another inconvenience would arise if it were endeavoured to make every penny exactly equal in value to $\frac{1}{240}$th part of a sovereign; for the weight of these pennies would have to be altered with every fluctuation in the value of bronze.

Bi-metallism. Much controversy took place a few years ago (1886—1896) on this subject. The term bi-metallism means that the relative value of gold and silver should be fixed by law; that the Mints should be "open," that is prepared, on demand, to coin any amount of either metal; and that debts to any amount should be dischargeable in either silver or gold at the option of the debtor, at the ratio fixed by law. A large number of economists and some statesmen advocated bi-metallism in the belief that a nearer approach to a fixed standard of value would thus be gained than by a single standard of either gold or silver. The theory on which this belief is founded is one which is very easy to understand: in practical application however the subject is extremely difficult; and, as far as actual experience goes, bi-metallism as it formerly existed in the Latin Monetary Union and in the United States broke down and was abandoned in 1873. The theory of bi-metallism is, that if several countries agree to fix by law the relative value of silver and gold (making for instance $15\frac{1}{2}$ parts of silver always legally exchangeable for one part of gold), whenever the actual value as regulated by cost of production failed to correspond to this legal ratio, it would immediately become profitable for all debtors to discharge their debts in the metal that had depreciated in value; thus a greater demand for it would be created and a smaller demand for the metal that had risen in value; and this diminished demand for the dearer metal and the increased demand for the cheaper

would tend to restore gold and silver to the ratio fixed by law.

France and the Latin Monetary Union. Bi-metallism existed in France from 1785 to 1873, at the ratio of $15\frac{1}{2}$ to one; and in 1865 the Latin Monetary Union was formed, the chief member of which is France, and under the terms of which Belgium, Switzerland, Italy, Greece and Roumania assimilated their monetary system to that of France: the ratio was $15\frac{1}{2}$ to one, the Mints were "open," and debtors could discharge their debts to any amount in either gold or silver coin. The United States also had a bi-metallic system, at a slightly different ratio, till 1873. It should perhaps be explained that the Mints being "open" to both gold and silver does not mean that the possessor of $15\frac{1}{2}$ kilogrammes of silver could bring it to the French Mint and take away one kilogramme of gold in coin. It means that his $15\frac{1}{2}$ kilogrammes of silver would be exchanged for the same weight of silver coin, and that its legal value would be the same as that of one kilogramme of gold, namely 3100 francs.

It is pointed out by bi-metallists that all through the period of the great gold discoveries in Australia and California (1850—1864), when the annual supply of gold produced was suddenly multiplied six or seven times, and the production of silver showed merely a slight increase, this legal ratio between gold and silver was maintained in France, although the actual value of the two metals did not correspond to it, gold having fallen and silver having risen in relative value. The practical consequence of this was, that silver, being more valuable out of France than in it, poured out of France, and gold took its place. In the twenty-three years from 1830 to 1852 France imported and coined £91,000,000 worth of silver and a very trifling amount (£3,500,000) of gold. During the next twelve years, 1853—1864, the silver coinage simply poured out of France. She exported £68,000,000 worth of silver, and was so seriously inconvenienced by the want of small change that a token silver coinage was introduced in 1864, and gold five-franc pieces were put in circulation. At the same time that silver was pouring out of France, because silver was undervalued

by the French ratio, gold was pouring in for the corresponding reason that the ratio fixed by the French law over-valued gold. In the twelve years from 1853 to 1864, France imported and coined gold to the amount of £117,000,000.[1]

Gresham's Law. The facts above referred to, which are not disputed either by bi-metallists or mono-metallists, afford a very interesting example of what is known as Gresham's Law. Put briefly, this is that bad money drives out good. That is to say, where there is a double standard, and debts can be legally discharged by either of two kinds of currency, that which can be obtained at less cost will be preferred to that which can only be obtained at a greater cost. This is what happened in France during the years referred to; gold went down in value and silver relatively to gold went up; and the depreciated gold drove out the appreciated silver.

Both mono-metallists and bi-metallists cite the example of France and the other countries of the Latin Union in support of their own views. The mono-metallists assert that it proves their contention that both metals cannot form a standard at the same time; that in fact what is called bi-metallism is in reality an alternating standard, that from 1850 to 1865 gold drove out silver, and that if the Mints had been kept open to silver after 1873 silver would have driven out gold. The bi-metallists, on the other hand, have no doubt established that the large absorption by France of the new gold checked the fall in its value which the Californian and Australian discoveries tended to produce. But the comparatively slight fall in the value of gold was not all due to French bi-metallism; its fall in value was also checked by the universal development of commerce and trade which marked the period of the gold discoveries. This development was the result of many causes; the gold discoveries themselves had no small share in it; it was also partly due to the influence of free trade and the facilities of transport resulting from the railway system and the application of steam to shipping. There is considerable difference of opinion among economists even yet, as to the degree to

[1] See "Some Statistics bearing on Bi-metallism," by Mr. J. Barr Robinson, *Journal of the Statistical Society*, Sept. 1895.

which the great gold discoveries lowered the value of gold. Professor Cairnes and Professor Jevons estimated it at 15 per cent., while the Rt. Hon. Leonard Courtney, M.P., believes it to have been about 30 per cent.

This comparatively slight fall in the value of gold in face of an enormous increase in its production is contrasted by bi-metallists with the heavy fall in the value of silver which has taken place since 1873, together with a fall in gold prices indicating a rise in the value of gold estimated at 30 per cent.[1]; and the stability of the earlier period is attributed by them to the action of the bi-metallic law in France and the rest of the Latin Monetary Union. The fall in prices which characterised the period from 1873 to 1896 is attributed by them to an actual scarcity of currency, due to gold having been adopted as the standard in Germany and the United States, and the free coinage of silver having been suspended by the Mints of France and the other countries of the Latin Union. In this argument they appear not to give due weight to the following considerations :—

1. Although silver has been "demonetised" in Germany and in the United States, and although the Mints of the countries forming the Latin Union are no longer open to silver, these nations continue to use silver to a very large extent as a medium of exchange : the silver in circulation in Germany, for instance, is estimated to be worth £32,000,000; that of France reaches the enormous value of £90,000,000; that of the United States £26,000,000; that of Austria £13,000,000.[2] Therefore if money is regarded as a tool for carrying on exchanges, it is obvious that silver still discharges its function in this capacity even in those countries which have a gold standard or which have ceased to keep their Mints open to silver at a fixed ratio to gold. The alleged "artificial famine of money" due to a supposed disuse of silver cannot be regarded as having a real existence. Moreover the appreciation of gold, as indicated by the fall in

[1] See article by Rt. Hon. Leonard Courtney, M.P., *Nineteenth Century*, April 1893.

[2] See paper in *Journal of Statistical Society*, Dec. 1895, by Mr. L. C. Probyn, p. 578.

prices, has been followed by a great increase in its supply. The output of gold in 1894 amounted to nearly £36,000,000, *i.e.* nearly £5,000,000 in excess of the highest sum it reached in the period of greatest production in the early years of the Californian and Australian discoveries. The total annual production of gold all over the world has increased enormously since 1886, when it was only about £20,000,000. The increase was due partly to new discoveries on the Rand, at Yukon, and in Western Australia, but also, and very largely, to improved methods of extracting the metal from the ore. The total production of the world reached the highest point hitherto known in 1899, when it equalled more than £60,000,000. For the five years ending 1900 it averaged more than £50,000,000.[1]

2. With the development of banking and credit, paper money plays a very large part as a medium of exchange. France has a paper circulation estimated at the value of £139,000,000; and the United States of £233,000,000. In no country is banking more developed than in the United Kingdom, and although we have not a very large paper circulation in the form of bank notes (about £40,000,000), yet other forms of credit, such as cheques and bills of exchange, dispense with the use of coin in all but what may be called the petty cash transactions of commerce and everyday life. The distinctive characteristic of the currency of England in comparison, for instance, with that of France is the small amount of gold, silver and paper in circulation per head of population. The population in the two countries is approximately the same; but while the total circulation is nearly £9 per head in France, it is less than £3 per head in the United Kingdom. The cause of this is to be found in the almost universal habit of banking in England; all savings and most current incomes may be practically said to be in banks in one form or another; and banks dispense with the use of actual cash to an enormous extent by means of the clearing house. The method by which this is done is described in a later chapter. It is sufficient here to

[1] Paper in *Journal of the Royal Statistical Society*, Sept. 1901, by Mr. Wynard Hooper, "The Recent Gold Production of the World."

say, that at the bankers' clearing house in London in 1894, cheques were exchanged to the value of £6,337,000,000, showing that buying and selling to that amount had taken place without the actual use of a single coin.[1] In 1902 the sum cleared at the bankers' clearing house in London was £10,029,000,000. Gold in this case is not the tool used for carrying on exchanges: it is simply used as a standard of value, and its use as a medium of exchange is as completely dispensed with as under a system of barter.

3. The fall in gold prices which characterised the period 1881—1896 was due very largely to a cheapening of the cost of production of nearly all commodities owing to the introduction of labour-saving machinery and improved means of transit, enabling goods to be sent from all the ends of the earth, so that the area of competition has become or is becoming world-wide. Our wool, meat and fruit come from Australia, our wheat from India and America, because Nature does more and man less in the production of these things there than in England, and therefore they are cheaper, even when the cost of carriage across the world has been added to their first cost of production. It is this, and not a supposed "famine of money," that has caused bad times to the English agriculturalists. There is no famine of money: if an investment is offered to the public that appears likely to combine the attractions of fair interest and good security, such investments are subscribed for in a day four or five times over. For example, in February 1896 the Government of the United States issued a loan of £100,000,000. In a few hours the whole sum was subscribed for six times over. If the fall in prices had been due primarily to an appreciation of gold rather than to the reduction in cost of production of nearly all agricultural and manufactured produce, its effect would also have been seen in a fall of wages; but, notwithstanding the large increase in population in the United

[1] It must be remembered that the bankers' clearing house in London, though the most important in existence, because London is the commercial capital of the world, is only one of several similar institutions. There are clearing houses in most of the large provincial towns of England, and also in Scotland and Ireland, as well as in foreign countries.

Kingdom, it is universally agreed that the rate of wages, both for men and women, has risen; that is to say, from decade to decade a larger number of people are receiving a larger sum of money per head as weekly wages. If there were a real "famine of money" this would be impossible.

4. The fall in the value of silver has been due chiefly to the great fall in its cost of production since the great silver discoveries in Colorado and Montana in 1871. From 1851 to 1855 the average production of silver per year all over the world was 28,000,000 ounces: from 1871 to 1875 the average per year was 63,000,000 ounces: from 1891 to 1894 the average per year was 150,000,000 ounces. Some of the silver mines of Nevada are moreover so rich in gold that they would pay to work for the gold alone, even if the silver fell to a much lower value than it has hitherto touched. The fall in the value of gold at the time of the great discoveries in 1850 was checked, as described in the preceding pages, partly by the bi-metallic system in France, and partly by the great extension of trade in the gold-using countries. No similar circumstances have been in operation to check the fall in the value of silver. On the contrary, Germany adopted a gold standard at the very time when the new supplies of silver were beginning to send down its value, and although she continues to use silver very largely as a medium of exchange, her reserve is kept in gold, and her demand for gold increased while she had large stores of silver to dispose of.

The bi-metallic system standing alone even over so large an area as the Latin Union and the United States was not sufficient to prevent the heavy fall which ensued, and has since been progressing. France abandoned the free coinage of silver at the ratio of $15\frac{1}{2}$ to one in 1873, because to keep it up would be to offer a ruinously high price for all the depreciated silver in the world. Similar considerations led the United States at the same time to give up their ratio, which then stood at 16 to one. No satisfactory answer has yet been given by bi-metallists to the question, Why did France abandon her bi-metallic system in 1873 if bi-metallism is able to accomplish all that its most zealous advocates

claim for it? Its equalising tendency is operative only as against minor variations in cost of production of the two metals; and if any marked change takes place through new discoveries of either metal unaccompanied by commercial developments which counteract their full effect, the ratio fixed by law would have to be abandoned, and another ratio as nearly as possible assimilated to the real relative value of the metals would have to be substituted for it. The uncertainty attending such changes, the political and possibly corrupt means of bringing them about, could not but have a very disastrous effect upon trade and upon the well-being of the whole community. Even now when bi-metallism is a theory and not in practical operation, the difficulty of agreeing upon a ratio between the two metals is one that has not been successfully grappled with by its adherents. Most economists advocate a ratio approximating to present market values; but France, which has a reserve of silver estimated, at the old ratio of $15\frac{1}{2}$ to one, at £50,000,000, and the United States, which holds a reserve of silver, at the same ratio, worth £100,000,000, will not consent to a ratio which would lower the value of their store of silver by nearly one-half. And thus international bi-metallism, even as among those who advocate the system, stands at a deadlock, because no working solution has been offered to the difficulty of fixing the ratio.

One more practical consideration bearing on the subject may be mentioned: the silver-producing countries and the countries owning large reserves of silver have a permanent pecuniary interest in advocating bi-metallism, especially if they could get the ratio fixed at something above the present value of silver. As far as regards India, England would benefit by bi-metallism; but as regards her general commercial position she would be a loser by it, because she more than any other nation is the creditor of other countries; and bi-metallism puts the creditor at a perpetual disadvantage. Under bi-metallism, whatever the turn of the market may be, the debtor has the choice of taking advantage of it and paying what he owes in whichever of the two metals is depreciated in comparison with the legal ratio.

The difficulty in India is a very real one, because India receives her revenue in silver, and has to make large payments in gold. In 1893 the free coinage of silver was stopped at the Indian Mints (the Indian Government exercises an absolute control over the coinage of rupees), and a notice was issued that until further orders gold would be received in exchange for Government rupees, at £1 for fifteen rupees. There appears to be no prospect of the reopening of the Indian Mints to silver; the ultimate aim may probably be the establishment of a gold standard with a silver circulation. In itself the closing of the Indian Mints to silver must have had the effect of still further depreciating its value as compared to gold; but already, as will be explained in the next paragraph, this anticipated result has been counteracted by the large output of the South African and other new gold-fields. If the difficulties arising from the heavy fall in the value of silver attendant on the large increase in its production during recent years can be successfully tided over, the risks incurred by the maintenance by England of her present system seem less than those she would incur by taking part in an international bi-metallic experiment. The future conditions of the production of gold and silver are absolutely uncertain. Already, while almost every bi-metallist was only the other day pointing to the decreased production of gold as a probably stable element of the problem under consideration, the production of gold has gone up by leaps and bounds, and no one can foretell from year to year whether its further supply will not be rapidly augmented. It has been already mentioned that the output of 1894 was nearly £5,000,000 in excess of the largest output of any one year during the great discoveries of the period from 1850 to 1860, and that the average for the five years ending 1900 was £50,000,000 a year. All the gold-producing countries in the world (except Russia) are increasing their output, and new gold-fields have been discovered. It is probable therefore that gold will tend to go down in value, and in the absence of counteracting circumstances prices will rise. If, on the other hand, immense new discoveries of silver should be made while the conditions of the production

of gold remained unaltered, the downward course of silver in value, which has been the predominant feature of the last twenty-five years, would be accelerated. With these uncertainties as an essential feature of the problem, an attempt to fix by law the value of one commodity in the terms of another would partake of the nature of a gambling transaction, and it would be one in which, from circumstances just referred to, the risks of loss incurred by England would be peculiarly and specially heavy.

Questions on Chapter II. *On Money.*

1. What are the functions of money?
2. Describe what is meant by a measure of value; and give an illustration.
3. Describe what is meant by a medium of exchange; and give an illustration.
4. Is the substance selected as money necessarily gold or silver?
5. What substances have been used at different times and in different countries as money?
6. Enumerate the qualities which the substance selected as money should possess.
7. Explain and illustrate the importance of each of these qualities.
8. What substances possess these qualities in an eminent degree?
9. What are the special disadvantages of using labour as the standard of value?
10. What is the standard of value in England?
11. What is the position of the silver and copper coinage in England to the gold sovereign?
12. Repeat the excellent example by means of which M. Bastiat has illustrated the true nature of money.
13. What is meant by "bi-metallism"?
14. Describe the monetary system of France up to 1873.
15. Why did France then close her Mint to the coinage of silver?
16. What is Gresham's Law?

17. Give an illustration of its operation in France during the gold discoveries of 1850—1864.

18. What other causes were there at work to check the fall in the value of gold?

19. Name some of the practical considerations operating against bi-metallism.

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1. In India there is no gold coinage. What should you say was the effect of this on the mode of paying small debts? If you had £10 to pay away in about ten different shops, should you like to start out for the purpose with 100 florins in your pocket?

2. Does a man who discovers a gold mine add to the wealth of the country?

3. What would be the effect on the general wealth if every one suddenly found that the quantity of money in his possession was doubled?

4. Would buying and selling come to an end if all the gold, silver and copper in the world were destroyed?

CHAPTER III.—*The Value of Commodities.*

Commodities, when considered in relation to their Value, may be divided into Three Classes.

1st, Those which possess a monopoly value, and whose supply cannot be increased; such as the pictures of a deceased artist.

2nd, Those whose cost of production increases as an additional supply is produced; such as agricultural and mineral produce, where the area of supply is limited.

3rd, Those whose supply can be increased without increasing their cost of production; such as manufactured commodities.

Cost of Production. In enumerating these three classes of commodities the expression "Cost of production" has been employed. Mr. Mill has defined "cost of production" as consisting mainly of wages and profits. Prof. Cairnes, however, has adopted a different definition, andone which

seems more in harmony with the actual facts of the case: he has shewn that the *ultimate* elements of cost of production are toil, abstinence and risk, the first of which is endured by the labourer, the second by the capitalist, and the third, in varying proportions, by both the labourer and the capitalist. The reward of the toil and risk of the labourer is wages; the reward of the toil, abstinence and risk of the capitalist is profits. It is evident where the competition of labour and capital is such as to ensure that the amount of wages and profits in all trades shall be strictly proportionate to the toil, risk and abstinence endured, that profits and wages are the pecuniary measure of the real cost of production; and in such cases it is a matter of indifference whether in economic reasoning cost of production is defined as consisting of wages and profits, or of toil, abstinence and risk.

It is an error to speak, as people sometimes do, as if the capitalist had not to work at his business. The investor who merely takes shares in a commercial company is no doubt a capitalist who does not do any work; but in this case the profits he receives are less, and moreover he has to pay some one else to do the work, without which no business undertaking can be successfully conducted. A successful man of business requires industry, energy, resource and courage, a knowledge of markets, and a power of managing men. A man of capacity who works at his business must be paid for his work, as well as for the use of his capital.

Before particularising the causes which regulate the value of the three classes of commodities above mentioned, it will be necessary to enter into an explanation of demand and supply in their relation to value. It may, perhaps, simplify the investigation if we use the word price instead of value. There is no inaccuracy in doing this, because, as previously explained, price is a particular case of value: the supposition must, however, be made that any change in the price of a commodity is produced by some change in the value of the commodity itself, and not by any change in the value of gold. Thus, if it is said that the price of tea has risen,

it must be supposed that this rise is produced by an increase in the value of tea, and not by a decrease in the value of gold.

The effect of Demand and Supply upon Prices. It is often said that the price of a commodity depends on demand and supply; this is perfectly true, but the expression is sometimes used by those who could not clearly define its signification. The real relation between prices and demand and supply may be briefly expressed thus:—The price of commodities must be such as to equalise the demand with the supply. As a general rule the demand increases with a diminution of the price, and as the price increases the demand diminishes. Suppose, for instance, that a house is going to be sold by auction, and that there are six persons who wish to buy it; they will compete against each other for the purchase of the house. The price of the house will be gradually raised, until at length five out of the six competitors retire from the contest, and the house becomes the property of him who offers the highest price for it; this price must be such as to cause the other competitors to withdraw their demand. For, if this be not the case, and if the other competitors offer the same or a higher price for the house, the contest will be unconcluded. When, therefore, there is free competition between the buyers and sellers of commodities, the market price of any article must be such as to equalise the supply to the demand. In the example just given six persons, *A*, *B*, *C*, *D*, *E* and *F*, desire to purchase a house; the price, therefore, of the house is raised to such a point as to oblige *B*, *C*, *D*, *E* and *F* to withdraw their demand; the only demand which remains is that of *A*; the demand is therefore made equal to the supply.

It is however evident that in such a case as that just described, the price which the house fetches may be such as to provide a greater reward for the capital and labour engaged in building the house, than is current in the trade. If this is so the supply of houses will be increased as quickly as the circumstances of the case permit. But this increased supply will tend to reduce the price of houses to such a point that the reward obtained by the labour and capital

engaged in the trade returns to its ordinary level. In a similar way if the price which the house fetches yields less than the ordinary reward to capital and labour, the master builders and labourers will employ their capital and labour in other industries : the supply of houses will fall off, until prices return to such a point as to pay the capitalist and labourer the current profits and wages of the trade.

This continual variation of market price, on either side of the *normal* price, or that regulated by cost of production, has been compared by Mr. Mill to the perpetual fluctuation of the waves of the sea. "The sea everywhere tends to a level, its surface is always ruffled by waves, and often agitated by storms. It is enough that no point, at least in the open sea, is permanently higher than another. Each place is alternately elevated and depressed ; but the ocean preserves its level."

The circumstances which regulate the Price of the first of the three classes of Commodities. It has just been stated that when exceptionally high profits are realised by the sale of any particular commodity the supply of it is stimulated, and that an effect is thus produced which reduces profits and prices to their natural rate.

There are, however, some commodities the supply of which cannot be increased, however high a price they realise. The prices, therefore, of such articles as the pictures of the old masters, ancient sculptures, the wine of any particular vintage, rare prints and books, never permanently approximate to the original cost of producing them. What, then, it may be asked, regulates the price of such commodities? As previously explained, the price of these articles must be such as to equalise the demand with the supply. To some this may seem impossible, for it may be said that every one would like to possess one of Raphael's pictures ; the demand, therefore, is indefinitely large, whilst the supply is small and stationary. It now becomes necessary to define what is meant by demand ; it cannot be merely the desire to possess the commodity, for nearly every one would desire to possess a Raphael. Desire for a commodity does not constitute demand unless it is combined

with the power of purchasing ; this combination of a wish to possess with a power to purchase has been aptly called "effectual demand." It is this effectual demand only that exercises an influence on prices. Here, then, we see two things, demand and price, each depending on the other. The demand depends on the price, as the price increases the demand decreases ; and the price depends on the demand. The supply is a fixed quantity ; the equality ultimately to be produced between the demand and supply cannot be accomplished by increasing the supply, it must therefore be produced by increasing the price to such a point that all demand is withdrawn save that which is equal to the supply. Let it be supposed that a picture of a deceased artist is offered for sale. If the price were fixed at £100 perhaps thousands of people would wish to buy it ; if the price were raised to £500 the demand might be reduced to that of fifty people ; if the price were still further raised to £1000 the demand might be reduced to that of ten persons, who would keenly compete against each other for the possession of the picture. Finally, the price might be pushed up to £1800, and the demand might be reduced to that of two individuals, *A* and *B*. *B* has perhaps decided not to give more than £1900 for the picture, whereas *A* might be willing to give as much as £2000. The price, therefore, will be fixed at some point between £1900 and £2000. What this point shall be is determined by what Adam Smith termed the higgling of the market. The owner of the picture may know that *A* will give £2000 rather than lose the picture ; whereas *A* may not know that *B* has determined to give no more than £1900. In such a case, the owner of the picture may induce *A* to give him £2000 for it ; but if *A* knows that *B* will only offer £1900, and that the owner of the picture is determined to sell, he will of course offer a sum only slightly exceeding £1900. We may suppose this sum to be £1910. At this point the effectual demand is equal to the supply ; for *B* withdraws his demand when the price exceeds £1900, and the only demand which remains is that of *A*, who becomes the possessor of the picture.

Every article which has an exchange value is char-

acterised by two qualities, viz. Value in use, and Difficulty of obtaining it.

The inquiry into the causes which regulate the price of such a commodity as the picture of a deceased artist is not yet exhausted. It may be asked, Why should *A* be willing to give £2000 for the picture whilst *B* will only offer £1900? This question leads to a further investigation of the elements of value. The exchange value of every commodity is influenced by two circumstances; its intrinsic utility or value in use, and difficulty of attainment.

Under the first head, value in use, are comprehended those qualities which satisfy some want or gratify some desire. Both these elements are present in every commodity which has an exchange value. Where difficulty of attainment is absent, an article, however indispensable or beautiful, possesses no exchange value. Thus air, though indispensable to life, ordinarily possesses no exchange value, because every one can obtain without difficulty as much air as he requires. But the air in a diving-bell has an exchange value, because it would be impossible to obtain it without an expenditure of labour and capital.

The most beautiful flowers have no exchange value in the meadows and woods where they grow, because there every one can obtain as many of them as he pleases. But they possess exchange value when they are brought into towns, for here the element "difficulty of attainment" again becomes active.

On the other hand, where "value in use" is absent no commodity has an exchange value, however difficult it may be to obtain; for no one will purchase that which neither satisfies a want nor gratifies a desire. The top brick in the chimney would have a large supply of "difficulty of attainment," but its value in use would not be more than that of any other brick, and therefore it would not have more exchange value.

The price of commodities is influenced in different degrees by these two elements. "Difficulty of attainment" generally exerts more influence in regulating the price of an article than "value in use." For instance, the value in use of a pair

of boots is so great, that probably few would dispense with them even if they cost five guineas a pair. But in this case the element "value in use" is only partially operative, and the price is almost entirely determined by "difficulty of attainment." It must however be remembered that value in use is always present, otherwise the article would command no price whatever. It has been explained that "effectual demand" consists of a wish to possess combined with a power to purchase. It is this effectual demand which influences the price of commodities. It is evident that "a wish to possess" any article is absolutely controlled by its value in use, that is, its power to satisfy some want or gratify some desire. The power to purchase any article is, on the other hand, controlled by the difficulty of its attainment. Thus, if a man came to me and offered to sell me 100 hearses, a great bargain, I should not be in the least inclined to close with him, because the hearses would have "no value in use" to me, and therefore I should have "no wish to possess" them. On the other hand, if I knew that on a certain day such pictures as the Rembrandts in the National Gallery were going to be sold by auction, I should not therefore think it possible that I could become the possessor of one of them. My "desire to have" them would be very great; but "the power to purchase" would be entirely absent, because the "difficulty of attainment" of such treasures would send the price up far beyond my reach.

In the previous example of the causes which regulate the price of such a commodity as one of Raphael's pictures, the element "value in use" is more operative than "difficulty of attainment." The difficulty of attainment is the same to *A* and *B*; the supply is absolutely limited, the price is therefore determined by the pecuniary value which *A* and *B* respectively set upon the gratification they will derive from possessing the picture. It is impossible here to analyse the causes which make *A* fix upon £2000 as the pecuniary value of the pleasure he will derive from the picture, whilst *B* thinks his desire for it is not worth more than £1900. It is quite possible that each possesses an equal desire for the picture, and that it would afford them both an equal amount

of gratification; but *B* may be a less wealthy man than *A*, and he may therefore not feel justified in spending an equally large sum in the purchase of the picture.

It is therefore evident that the price of an article, the supply of which is absolutely limited, is mainly determined by the pecuniary value which certain individuals set upon its power to satisfy some want or gratify some desire; difficulty of attainment is not however absent, even in this case; because the price diminishes as the difficulty of attainment decreases, and would cease to exist if difficulty of attainment were entirely absent.

The price of Agricultural Produce. The causes must now be examined which regulate the price of those commodities whose supply can only be increased by a greater proportional outlay of labour and capital, and which therefore become more expensive as the supply is increased. Agricultural produce was formerly the most important of the commodities belonging to this class; but since the improvement in means of transit has brought within our available means of supply all the most productive regions of the earth, it is no longer correct to say that an increased demand for agricultural produce can only be satisfied by increasing the cost of production. As a matter of fact the increased demand of a larger population has been accompanied by a marked and nearly continuous fall in prices. But in order to illustrate the tendency, when the area of supply is limited, for an increase of population to cause an increase in the price of food, let us consider an example in which we may suppose that the inhabitants of a small island are entirely dependent for food on what they can grow themselves. Let it be supposed that a party of emigrants arrive on an island, and form a village, and that they select, as they naturally would, the most fertile ground available for their purpose. We will also suppose that this village consists of fifty persons, and that all the food which they require is raised on the fertile land immediately surrounding their settlement. In the course of a few years the population of the village increases from 50 to 150: it is therefore evident that the community requires three times as much food as it did when

first it was formed. Where is this increased supply of food to come from? It is replied,—by going a few miles out of the village there is abundance of fertile land from which the additional food can be supplied. This is quite true; for we have given the village the advantage of placing it in the midst of a fertile district. But the food which is raised a few miles out of the village will not be brought to market at so small a cost as that which grows close at hand. The cost of carriage must be paid for by the consumers. Suppose that wheat grown immediately on the confines of the village had been sold at 10*s.* a quarter; the corn raised on equally fertile ground at a few miles' distance could be grown at a similar cost; but the labour of conveying this corn to the place where it is required must be remunerated, and it may be supposed that the rate of remuneration is 9*d.* a quarter. When therefore the corn reaches the village its price is 10*s.* 9*d.* a quarter. The price of all the corn consumed in the village will therefore be raised; for those who own the land immediately joining the village will not continue to sell their corn at 10*s.* a quarter when corn in no way superior to theirs realises 10*s.* 9*d.* In this example it has been supposed that the community is surrounded by an abundant supply of equally productive land, and that therefore when an increased supply of food is required the only additional cost incurred is the expense of carriage. But it is easy to perceive that the increased labour of obtaining an additional supply of food would be greatly augmented if it were necessary to resort to land not only less conveniently situated but also less fertile. Every quarter of corn grown on land of inferior productiveness might require thirty per cent. more capital and labour to produce it and bring it to market; if this were the case the price of corn throughout the community would be increased thirty per cent.

There is yet another case to be considered, in which the additional supply of food could not be provided except at a much greater cost. Suppose that the village community were settled on a small island, or in a mountain valley shut in by rocks, where an extended area of cultivable land was not attainable. The additional supply of food which the

increased population of such a village would require could only be obtained by improving the cultivation of the land already under the plough, by an increased application of labour and capital. It is however well known that after a certain point, even with the advantages of improved machinery and scientific farming, double the amount of capital and labour does not double the produce; and the cost of the increased quantity of food might very possibly be twice as much per quarter as that which was formerly required by the smaller population.

Where the area from which food can be obtained is limited, a growth of population tends to increase the price of food. Where the food supplies of a people are drawn from a limited area, it is obvious, from the examples just given, that a growth of population exerts a direct tendency to increase the price of food, and also that the growth of population is limited by the limitations of food supply. No nation can have a population of 40,000,000 if its available food supply only suffices for 8,000,000. The tendency of the growth of population to increase the cost of food, which was so acutely felt in our own country up to comparatively recent years, has been completely counteracted by various political, economical and industrial changes, the most important of which are the abolition of the corn laws, the development of the agricultural resources of our colonies and other countries, and the improvement and cheapening of the means of transit. These changes enable the increased population of the United Kingdom to be fed from Australia, America, India and the most distant regions of the earth, wherever food can be produced at the lowest cost. Thus, though the population of England and Wales nearly doubled between 1841 and 1894, being 15,914,148 in the earlier and 30,060,763 in the later year, the price of wheat reached the enormous figure of 81*s.* 6*d.* a quarter in January 1839, and was only 26*s.* 3*d.* in January 1894, averaging 22*s.* 10*d.* for the whole of the year. Moreover, when, either from legal enactment, or from war, or from imperfect communication with other countries, a nation is dependent wholly or chiefly on the agricultural produce

raised within its own borders, it is liable to suffer from extreme variations in prices. The aim of the corn laws for many years was to keep wheat at a steady 80*s.* a quarter; but all attempts to secure uniformity were a failure, because when the country was mainly dependent on its home supply, a good or a bad harvest, a fine summer or a frost in June, made all the difference between plenty and scarcity. Whereas now that our wheat comes from all over the world, the effect of a bad harvest in one region is counteracted by that of a good harvest in another, and the variations in the price of wheat from month to month or from year to year are trifling.

The Leiter "corner in Wheat" in 1898. It is evident that in a country such as England, which allows a free import of wheat, the fluctuations in its price will be reduced to a minimum; because having the whole world for our granary, the effect of a bad harvest in one locality is counteracted by that of a good one in another. The advantages of drawing our main food supplies from a widely-extended area are also very marked in that they tend to prevent artificial scarcity caused by attempts to buy up the whole stock and then selling it at a monopoly price. This used to be called "forestalling," but is now called "making a corner" in such and such a commodity. In 1898 an American named Leiter tried to make a "corner in wheat." A shortage in the world's wheat harvest encouraged him to make the attempt to buy up the whole stock. In this he was fortunately foiled in consequence of the immense area his operations would have had to cover.

One may form some estimate of the effect of increased population upon the price of food by considering those commodities which cannot be, to any considerable extent, imported. The price of milk and new-laid eggs has increased; and if the population goes on increasing, there is no doubt that these and similar perishable commodities will get dearer still, unless science is able to provide some better means of preserving them than is known at present. The rise in the price of butcher's meat, which at one time threatened to be very great, has been checked by the im-

portation of fresh meat from New Zealand, the United States and other distant countries. The problem of how to supply England with dead meat from the colonies has been solved. Excellent New Zealand and Australian fresh beef and mutton can now be bought in London and other large towns at prices varying from $3\frac{1}{2}d.$ to $9\frac{1}{2}d.$ a pound. The meat is neither tinned, salted nor frozen, but is preserved during the voyage in a chamber through which there constantly passes a current of air reduced to a temperature only slightly above freezing-point. In the colony of New Zealand this trade has grown up almost entirely since 1880, and from that one colony the mother country received in 1895, 128,000,000 lbs. of fresh meat, and in 1900, 206,000,000 lbs. The other principal sources of supply beyond what is grown at home are the United States, Argentina, Denmark and Canada.

A summary of the laws governing the price of Agricultural Produce. The following is a brief summary of the causes which regulate the price of agricultural produce.

An equality must be effected between the demand and the supply. When the demand is in excess of the supply the equality cannot be restored, as with some other commodities, by withdrawing a corresponding portion of the demand. For the demand for the necessaries of life must always bear a proportion to the number of the population. The demand for the staple food of a nation does not vary in an inverse ratio with its price. People must either eat or die, whether bread is dear or cheap; the effect therefore of the price of bread upon the demand for it is very small, for people are obliged to relinquish every unnecessary expenditure before they diminish their demand for bread. It was said above that the demand for necessaries could not be withdrawn in the same manner as a demand for other commodities. This is true, it cannot be withdrawn in the same way; but it can be and is diminished by starvation and semi-starvation. But this means of reducing the demand necessarily diminishes the number of the population, so it still remains true that the demand for necessaries must

always be proportionate to the number of the population. When, therefore, the demand is in excess of the supply, equality is restored, not by decreasing the demand, but by increasing the supply. Free trade, and improved means of transport and carriage, and the competition of producers all over the world have enabled the wants of a largely increased population to be supplied, at a considerably lower level of prices than formerly prevailed, because the area from which supplies are drawn is now almost indefinitely extended.

The productions of Mines and Fisheries. What has been stated with regard to agricultural produce is also true with regard to the produce of mines and fisheries. When an increased demand for fish takes place, the demand is satisfied by resorting to less productive or more distant fisheries; hence the cost of production (that is the labour and risk incident to production) is increased, and prices rise. The area from which the supply of fresh fish can be obtained is, from the nature of the case, limited. Nevertheless, here also new and *more* productive sources of supply have been made available by improving the means of communication. A few years ago a lobster for which 5*s.* would be charged in Dublin could be bought for 6*d.* or 10*d.* in Donegal. Now that the west of Ireland has got light railways, this difference cannot be maintained; the price of fish will tend to go up in Donegal and to go down in the more populous places. The effect on the prices of fish, mining produce and agricultural produce of the improvement and development of means of communication is to render much more available the most productive sources of supply. It is this which has almost destroyed Cornish mining: the copper and other ores formerly produced there can now be obtained at less cost from other and more distant sources of supply.

The Laws which govern the Price of Manufactured Commodities. When illustrating the general theory of value the laws regulating the price of manufactured commodities were referred to; but it may be desirable more fully to explain their nature, for manufactured articles are those whose supply can be increased without increasing

their cost of production. They therefore form the third of the classes into which commodities are divided in respect of their price.

It has been previously stated that the price of such commodities is governed by their cost of production, in so far as free competition exists among their producers. It is now necessary fully to explain of what elements their cost of production is composed. It may perhaps be thought that there is no reason to distinguish between the laws governing the price of agricultural and mineral produce, and those governing the price of manufactured commodities, because the raw material of all manufactures is derived in one way or another from the land. It is true that in the production of both, Nature and man must co-operate; but in the case of agricultural and mineral produce, and in that of manufactured produce, they co-operate in very different proportions. With some raw minerals, for example a nugget of gold, their value is almost entirely the free gift of Nature. This is an extreme example; but in the case of agricultural and mineral produce the markets of the world are more and more supplied from those regions where Nature does most and therefore the cost is least: the co-operation of man's labour occupies a far more important place in the production of manufactured commodities. The price of the raw material no doubt forms a part of the price of manufactured commodities; but with most manufactures it does not form an important part. Take the instance of a piece of cotton cloth. The number of processes which the cotton goes through is so great that the price of the raw material forms but a small part of the cost of producing the cotton cloth. The raw cotton is grown in America; it has to be packed on board ship, and conveyed across the ocean to Liverpool; when it arrives in England it goes through almost innumerable processes, carried on by different classes of labourers, all of whom have to be remunerated; the capital also which is required for carrying on these various processes must be replaced and rewarded by the ordinary rate of profit. An instance has already been given on p. 11 of the value of a bar of steel being multiplied

by 4000 by the process of manufacturing it into hair-springs for watches.

The principal Element of Cost of Production. It is therefore seen that the principal element in the cost of producing a manufactured commodity is labour ; the abstinence and skill of the capitalist is also an important component of the cost of production ; the influence of the price of the raw material is in most cases of minor consideration as compared with the cost of labour and abstinence. The price realised by the commodity must be, as previously explained, such as to yield a sufficient inducement to the capitalist and the labourer to continue their exertions.

It very often happens that the cost of the production of manufactured commodities, even when there is no variation in the cost of the raw material, diminishes when the supply is increased. When production is carried on on a large scale, many of the processes of manufacture can be economised. Steam-power, in nearly all cases where it can be applied, effects an immense saving both of capital and labour. Unless, however, there is a large system of production steam-power cannot be successfully introduced. Hand-loom weaving, for instance, could never have been superseded by steam-power and machinery, if production on a large scale had not taken the place of production on a small scale. As a rule, the expenses of carrying on business do not increase in proportion to the quantity of business done. The same buildings can very often accommodate an increased number of workmen. The overlooker and the designer can superintend and direct the labour of a large number of workmen as well as that of a smaller number. The book-keeping department does not require a proportionate increase of clerks and accountants when business transactions are doubled or trebled. It is also obviously much easier to have complete division of labour where production is carried on on a large scale. For instance, when the hand-loom was used, all the processes of weaving cloth were performed by one individual. Now each process is performed by a separate set of workers, and production is thereby greatly assisted.

A small capitalist who carries on a limited trade cannot afford to purchase expensive machinery, because he would not be able to keep it in full work. There are some commodities for which there is a very limited demand, the cost of whose production would be greatly diminished if a largely increased supply were wanted. A remarkable instance of this is afforded by the manufacture of small rowing-boats. A machine was some years since invented for the manufacture of these boats which would have effected a reduction in their cost of 30 per cent. The machine was not, however, adopted by boat-builders, for this reason; the machine works so rapidly that it would soon turn out more planks than are required for all the boats built in a year. If, therefore, a boat-builder went to the expense of buying one of these machines he would most likely not require to keep it at work more than one month in the year. During the eleven remaining months the machine would be lying idle, and not returning any profit to its owner. This machine will therefore probably never be used unless the demand for boats should very largely increase; or unless all the boats required in several countries could be made by the same builder.

Cost of Labour to the Capitalist does not vary with the amount of Wages. It must be borne in mind that the cost of labour to the capitalist does not always vary with the amount of wages which he pays his men; it varies in proportion to the value of the product as compared with the wages given. For instance, it is well known that skilled, and therefore highly-paid labour, is more remunerative in such a business as watch-making or glass-blowing than unskilled labour; the former is therefore less costly than the latter, although the wages of the unskilled workman may be only half as much as those of the skilled workman. When some railways were being made in France, it was found by Mr. Brassey, the great railway contractor, that it was to his advantage to bring over large numbers of English navvies; for although they received twice as large wages as the French navvies, they did more than twice as much work. The labour of

the Englishman was therefore not so costly as that of the Frenchman, although the Englishman's wages were double those of the Frenchman.

There is another aspect in which the effect of the efficiency of labour may be considered. The increased efficiency of labour is capable of conferring a vast benefit upon the labourers themselves. Increased efficiency signifies that a given quantity of capital and labour becomes more productive of wealth. If, therefore, prices remain unchanged, the profits of capital and the wages of labour may both be increased by the increased efficiency of labour. Suppose that education increases the efficiency of the labour of the agricultural peasant. It may very possibly have this effect by making him more intelligent, more trustworthy, and more sober. His employer could in this case increase his wages without decreasing his own profits or his landlord's rent, and without raising the price of agricultural produce.

The Profits of Capital. It will not be possible here to state the various agencies which produce the average rate of profit at different times and in different countries. The subject will be dwelt upon in a future section on the distribution of wealth. It is sufficient here to state that causes are constantly in operation which tend to make the interest of capital in all trades in the same country and at the same time approximate to an average. When capital appears permanently to realise higher profits in one trade than in another, these additional profits ought not in strict accuracy to be looked upon as profits of capital; they are either wages of labour, compensation for risk, for the disagreeableness of the occupation, or for its dishonourable reputation; or these exceptional profits may be the consequence of a natural or an acquired monopoly. Sometimes those engaged in a particular trade agree together to form what is called a "corner" or a "ring"; a few years ago a "ring" was made in quinine; that is a few capitalists agreed to buy up all the quinine in the world, and having done this they proceeded to double its price and thereby secure to themselves enormous profits. This is an instance of exceptionally high profits resulting from an acquired

monopoly. When all the disturbing causes above enumerated are removed, it will be found that the interest of capital tends to an equality.

The nature of capital has been already explained; it is now therefore sufficient to state that the profits of capital are the share of the wealth, produced by the joint agency of land, labour and capital, which is allotted to capital. The amount of this reward differs at different times and in different nations. In some countries capitalists obtain a clear return of £10 a year upon every £100 which they invest in trade; besides what they receive as compensation for risk and as wages for superintendence. When this is the case the rate of interest is said to be 10 per cent. In most countries the average rate of interest is much lower; in England it is about $2\frac{1}{2}$ per cent.

The relation between Profits and Prices. It must always be remembered that the reward of the capitalist and of the labourer (*i.e.* their profits and wages) must be contained in the price of the commodity which they have combined to produce. This price must (if the manufacture is to be continued) be sufficient to yield to the capitalist and labourer the rate of profits and wages current in the trade at that time. If the price is less than this the labourer and capitalist would earn more by engaging in other industries, and the production of the commodity would be checked. Therefore any circumstance which raises the rate of profit current in a country, or which raises the rate of wages in any particular trade without increasing the efficiency of labour and capital, will cause a higher price to be paid for the commodity produced.

It will, however, be obvious on a brief consideration that the rate of profits and wages will be in the main dependent on the efficiency of a given exertion of capital and labour resulting in a large production of commodities. When this is the case, cost of production is low, wages and profits are high, and prices may be low. It is thus seen that high profits do not always accompany high prices, nor low profits low prices. Suppose, for instance, that a village carpenter invents a machine which increases the productive power

of his capital and labour 50 per cent. Where he before made ten boxes or ten tables, he is now able to make, by the same expenditure of capital and labour, fifteen boxes or fifteen tables. It is evident that unless prices decline he will realise 50 per cent. more as a return to his capital and labour. His wages and his profits have both increased; and the cost of production has decreased. It is not, however, probable that he would be able permanently to retain the whole of the advantage of his invention. The increased supply of boxes, chairs, tables, etc., would ultimately cause a reduction of price. The demand, it has often been repeated, must be made equal to the supply. The supply is in this case increased 50 per cent. It may be supposed that the supply was equal to the demand before this increase took place. The carpenter will therefore find it necessary to reduce the price of his manufactures, if he desires to find customers for them. He may perhaps find by experience that a reduction of 15 per cent. in the price is sufficient to sell all his stock. He therefore parts with this portion of the advantage produced by his invention, and retains an addition to his own wages and profits of 35 per cent. In this case wages and profits are both increased, whilst the cost of production and ultimately prices are diminished.

In the case just investigated it has been supposed that the village carpenter who invents this machine has no rival, of his own trade, in his locality. But suppose there were three or four carpenters in the same village; they would as soon as possible procure similar machines; the supply of chairs, tables, etc. would be very largely increased. Each carpenter, in order to find purchasers, would try to undersell the others, and finally they might be induced to part with the whole of the advantage of the invention to their customers; the wages and profits of the carpenters would return to their former level, and prices would be reduced 50 per cent. This example shews:—

1st, That when the efficiency of labour and capital are increased, wages and profits rise, and the cost of production is diminished.

2nd, That when this increased efficiency takes place, wages and profits may rise, simultaneously with a decrease in prices.

3rd, That where free competition exists between capitalists on the one hand, and labourers on the other, the whole benefit arising from the increased efficiency of capital and labour is generally gained by the consumer. That is to say, that increased efficiency decreases prices, and does not permanently raise the wages of labour or the profits of capital.

It should be here pointed out that although increased efficiency generally operates in reducing the price of the particular article in question, and does not raise the money wages of labour or the profits of capital, yet if the article cheapened by the invention be one which enters into the consumption of labourers and capitalists, the real reward of labour and capital is increased; that is to say, the money distributed in wages and in profits has a greater purchasing power. If the article cheapened be boots, the wages of labour, though remaining at the same sum, would in reality be increased because the same amount of money would exchange for an increased number of commodities. In the manner just indicated, capitalists and labourers have benefited by the application of steam to industry. The whole advantage of the immense addition which is thus made to the efficiency of capital and labour could not be retained by the labourers and capitalists in the form of a universal increase in wages or a higher general rate of profit. Competition of other labourers and capitalists prevented that. The ultimate benefit which they derived from the increased efficiency of labour and capital was in the consequent reduction in price of nearly all manufactured commodities. This point will be hereafter further explained.

A summary of the effect of Demand and Supply on Prices. The following is a brief summary of the manner in which the prices of the three classes of commodities above enumerated are acted upon by demand and supply. It must be borne in mind that the price in the case of all these commodities is adjusted in such a way as to equalise the demand with the supply.

In the case of the first class of commodities, those whose supply is absolutely limited, the supply is made equal to the demand by raising the price to such a point that the demand exceeding the supply is withdrawn.

In the case of the second class of commodities, where the area from which supply can be obtained is limited, the supply cannot be increased without increasing cost of production. But this tendency of an increased demand to cause an increase in cost of production, is counteracted where, as in recent years in the United Kingdom, the development of trade and improved facilities of communication have brought within reach of the home markets much more productive sources of supply.

In the case of the third class of commodities, whose supply can be indefinitely increased without increasing their cost of production, when the demand is in excess of the supply, prices rise, and a portion of the demand is withdrawn; but this manner of equalising the demand to the supply is only temporary; when the price of a commodity rises above what is necessary to provide the current rate of wages and profits to its producers, production is greatly stimulated. This increased production increases the supply, and prices fall; the adjustment of the supply to the demand ultimately taking place by means of an increased supply.

Having now investigated the causes which regulate the prices of the three classes into which commodities are divided, the next chapter will be devoted to an explanation of the value of money.

QUESTIONS ON CHAPTER III. *The Value of Commodities.*

1. Into what classes are commodities divided in relation to their value?
2. What is "cost of production"?
3. What are the principal elements of cost of production as stated by Mr. Mill?
4. What other definition has been given by Prof. Cairnes of cost of production?

5. What is the accurate explanation of the expression that "prices depend upon demand and supply"?

6. Give an illustration of the manner in which the adjustment of prices equalises demand and supply.

7. Explain the manner in which the tendency is exerted to make the market price of a commodity approximate to a sum just sufficient to yield the current rate of wages and profits to the labourer and capitalist who produce it.

8. This approximation takes place only when the supply of the commodity can be increased. In what manner is the price of those commodities adjusted, the supply of which is absolutely limited?

9. What is "effectual demand"?

10. By what two qualities is every article characterised which has an exchange value?

11. Are these qualities always present in the same degree?

12. Give illustrations.

13. Which quality is the more active in determining the price of such a commodity as one of Raphael's pictures?

14. Describe the operation of an increased demand for agricultural produce in causing an increase in its cost of production and consequently in prices.

15. How has this tendency been counteracted in the United Kingdom?

16. Mention some other commodities which are subject to the same laws as those which regulate the price of agricultural produce.

17. Name the last of the three classes into which commodities are divided in respect of their value.

18. Are the laws which govern the price of manufactured commodities the same as those which regulate the price of agricultural produce?

19. Explain the reason of the difference existing between them.

20. Illustrate the manner in which the price of manufactured commodities is sometimes decreased when the supply is augmented.

21. In what manner does efficiency of labour act upon cost of production?

22. What is the connection existing between wages, profits, cost of production and prices?

23. Shew by an illustration that, under certain circumstances, profits and wages can both be raised without increasing prices.

24. What practical conclusion can therefore be drawn respecting the connection of prices with the rate of profit and the wages of labour?

25. When there is a general increase of efficiency of labour and capital, in what way do labourers, capitalists and consumers benefit?

26. Give a summary of the laws which regulate the price of articles of vertu, agricultural produce and manufactured commodities.

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1. If the poor people took to eating grass, could the baker increase the size of his penny loaf?

2. What view of cost of production is taken by Hood in the lines:—

> "Oh men with sisters dear, men with mothers and wives!
> It isn't linen you're wearing out, it's human creatures' lives"?

3. If the cost of producing food remains the same, what will be the effect if the population of England goes on doubling itself every 60 years?

4. If a machine is invented that greatly facilitates the production of a particular commodity, do you think the inventor should take out a patent for it, and thus secure the advantages to himself instead of allowing, by the effect of competition, the consumers of the commodity to obtain all the benefit of the invention?

5. It has been said that the demand for a thing influences the price of it. Does the desire of a pauper to have a carriage influence the price of carriages? And if not, why not?

6. Supposing that all the members of my household decline to eat New Zealand meat, will the importation produce any effect on my butcher's bills?

7. Suppose meat were cheaper, and my butcher's bills were consequently reduced one-third, should I be permanently any better off, if about the same time I had nine people to keep instead of six?

CHAPTER IV. *On the Value of Money.*

It is not at all an uncommon thing to hear people talk about the price of money. This expression is very often used respecting the rate of interest; when those who borrow money have to pay for the loan a large sum over and above the amount they receive, the price of money, or the rate of interest, is said to be high. When borrowers only pay a small sum for the use of the loan, the price of money, or the rate of interest, is said to be low. It will, however, be shewn that, apart from its commercial signification, the expression "the price of money" has no meaning whatever. It has been said in a former chapter that the value of a commodity is its exchange power, or the number of other commodities for which it will exchange. It was then explained that price is a particular case of value, that is, the value of a commodity estimated in money. When therefore the price of money is spoken of in any other sense than that indicated above, it is equivalent to mentioning the value of money estimated in money. This is, of course, a foolish expression; it might as well be said that the price of ten pounds was ten sovereigns, or that the price of a shilling was two sixpences. It is impossible to measure the value of a commodity by comparing it with itself.

The value of Money. The value of money is its exchange power: when money exchanges for a large quantity of other commodities, or in other words, when prices are low, the value of money is high; when money exchanges for a small amount of other commodities, or in other words, when prices are high, the value of money is low.

The value of Money is regulated by the same laws as those which determine the value of other mineral produce. It is sometimes erroneously supposed that the value of money is invariable, because an ounce of gold can

always be exchanged for the same amount of money. Whether prices are high, or whether they are low, an ounce of gold can always be exchanged at the Mint for £3 17*s.* 10½*d.* Those who think that this fact proves the value of gold to be unalterable would also be likely to believe that the value of land is unchangeable, because an acre of land can always be divided into four plots of a quarter of an acre each. The fact that an ounce of gold will always exchange for £3 17*s.* 10½*d.* only shews that an ounce of gold will divide into three sovereigns and that part of a sovereign which is represented by 17*s.* 10½*d.*

It must be borne in mind that the value of the precious metals is regulated in the same manner as the value of other mineral products. The value therefore of the precious metals is adjusted by an equalisation of the demand with the supply. As the demand increases the value rises, and the production of an increased supply is also stimulated. If this increased supply is obtained from less productive sources, the cost of production will be increased and the value of the precious metals will be augmented. If however the increased supply is obtained by the discovery of more productive mines, the cost of production will be reduced and the value of the precious metals will diminish. The yield of silver from America has of recent years been enormously increased owing to the discovery of very productive mines. From the years 1849 to 1858, the yield of silver from American mines was of the value of £10,000 per annum. About the year 1861 the yield began largely to increase; from that date the total annual supply throughout the world steadily and largely increased owing to the large output of the American mines: from 1861 to 1865 the total production averaged 35,000,000 ounces per year; by 1885 it had reached 91,000,000 ounces, and by 1894, 166,000,000 ounces.[1] This and some other circumstances, referred to in the previous chapter, have caused a serious fall in the value or purchas-

[1] See annual report of Mr. Preston of the United States Mint, *Times*, December 2, 1895. But the production of silver in the United States declined after the above date, and in 1901 it was 55,214,000 ounces. See *Statistical Abstract*, 1903.

ing power of silver, and is occasioning great anxiety and inconvenience to those countries which, like India, have silver for their standard currency. It does not affect the value of the English currency, because our silver coins are merely tokens ; twenty shillings have never contained a value of silver equivalent to the value of the gold contained in a sovereign. Gold is our standard currency, and is the only legal tender for the payment of debts of more than 40*s.* in amount. The value of silver has already declined from 60*d.* an ounce to 27$\frac{1}{8}$*d.* an ounce, or more than 50 per cent. (January 1904).

The circumstances which influence the Demand for Gold and Silver. It has been previously explained that the demand for a commodity is regulated by its value. To this rule money is no exception. To carry on a given amount of business about thirty-four times more silver would be needed than gold : and why? Because silver is now (1904) thirty-four times less valuable. The quantity of money required in any country will depend partly on the cost of its production, and partly on the rapidity of its circulation. The principal use to which gold and silver are devoted is the formation of money ; but they are also used in many processes of art and manufacture. The demand which each country has for gold and silver therefore depends on their value ; on the national wealth and population ; the number of times commodities are bought and sold for money; and the activity of the arts and manufactures in which gold and silver are required.

When it is said that the demand for money depends on the national wealth, it must not be supposed that the wealth of a nation can be accurately measured by the amount of gold and silver which it keeps in circulation. The wealth of an individual is not measured by the quantity of money which passes through his hands. He uses various substitutes for money, such as cheques and bank notes, for nearly all his larger payments ; but he is obliged to use money for his smaller payments ; for paying weekly wages, and for defraying daily expenses, such as cab fares and hotel bills. It is therefore seen that though the amount of money used

by any individual is not by any means a measure of his wealth, still his demand for money generally bears some proportion to his wealth; as his wealth increases he employs more servants, or more labourers, he takes longer and more expensive journeys, and his daily expenses probably increase.

As it is with an individual so it is with a nation. The demand for money is not an accurate measure of national wealth, but it always bears some proportion to the wealth and population of a country. Thus, in a country of 20,000,000 inhabitants, a very far larger number of persons are in receipt of money wages than in a country containing 10,000,000 inhabitants. The increased demand for money has not however been proportionate to the increase of population and wealth in this country during the last twenty years. This is doubtless owing to the facilities of banking which now so largely prevail. An immense quantity of buying and selling is transacted every day in England by means of cheques without the use of a single coin of any kind. It has been already said that in proportion to the extent of its commerce England probably employs less actual coin than any other country. The way in which cheques obviate the use of gold and silver will be explained in detail in the chapter on "Credit and its influence on prices"; the way in which cheques take the place of coin, at the moment when they are used, is however so obvious as not to require any explanation. Formerly large business payments were made by means of money. Farmers who came to market to buy or sell corn or stock always expected to pay and to be paid in money. In this way on a market-day in a country town thousands of pounds would change hands. But in these large transactions the use of money is now entirely dispensed with. Farmers and those who buy of them bring their cheque-books to market; the use of money is not required except for the purpose of paying the expenses incurred on the journey. Although therefore the demand for money bears some proportion to the wealth and population of a country, yet the proportion is not fixed and definite; it is governed by the habits and customs of the community, and it is liable to alterations with every extension of the credit system.

The demand for precious metals is also influenced, to a very great degree, by the number of times commodities are bought and sold for money. If, for instance, a piece of linen after it is manufactured is sold for money to a wholesale dealer, who in his turn sells it again for money to a retail shopman, who sells it to a lady to make shirts for a missionary basket, the same piece of linen is exchanged for money four times before it is put to its ultimate purpose. It is evident that such a series of transactions must require a far greater quantity of money than would be used if the cloth were sold by the manufacturer to the consumer. It may here be remarked that it has become customary to dispense with the use of money in large trade transactions. The wholesale dealer would in all probability now pay the manufacturer with a cheque or with a bill of exchange, and the retail tradesman would pay the wholesale dealer in the same way ; by these means the quantity of money in circulation is greatly economised. The example, however, shows how the demand for gold and silver in each country is partly regulated by the number of times commodities are bought and sold before they are used.

It is hardly necessary to enter into an explanation of the manner in which the demand for gold and silver is affected by the quantity of those metals used in arts and manufactures. It has been said that the value of gold and silver is regulated by the same laws as the value of other mineral produce ; any circumstance therefore which causes an increased use of the precious metals in arts and manufactures will, if other things remain unchanged, cause an increased demand for gold and silver, and this increased demand would cause their value to rise.

Illustrations shewing the action of increased Demand and Supply upon the Value of Money. In order to investigate more fully the action of demand upon the value of gold and silver, let it be supposed that no substitutes for money, such as bank notes and bills of exchange, exist. Let it be further supposed that the supply of gold and silver cannot be augmented by fresh discoveries or by foreign importations These suppositions reduce the problem to

great simplicity. We will now take the case of a country whose inhabitants carry on their commercial transactions entirely by gold and silver coin, the amount of which they have no means of increasing. Let it be supposed that in such a community a great increase in the production of wealth takes place, that all manufactures are doubled, and that population increases. In such a case the same amount of money is used to carry on twice as much buying and selling; general prices must therefore have declined one-half, or, in other words, the value of gold and silver has doubled. Let us take another illustration. It may be supposed that the trade, population and manufactures of a community are stationary; and that all payments are made in money. The money which such a community keeps in circulation may be said to be £10,000,000. Owing to the discovery of gold or silver mines, or to foreign importations, the quantity of money in circulation is increased by £2,000,000. The same quantity of commodities is bought and sold the same number of times; the same number of people receive wages; but the circulation of the country is increased by one-fifth. Under these circumstances a corresponding rise must take place in wages and in prices, the value or the exchange power of gold having decreased 20 per cent. This example shews that, in the absence of counteracting circumstances, every increase in the quantity of gold and silver in circulation diminishes the value or purchasing power of gold. The first example proved that if wealth were increased without a corresponding increase in the amount of money in circulation, the value or purchasing power of gold must increase. Increased prices do not necessarily indicate increased prosperity.

It is perhaps hardly necessary to point out that the increase of wealth on the one hand, and the increase of the circulation on the other, never actually produce their full effect upon the value of gold and silver. In the above examples it was necessary to assume the absence of counteracting circumstances, which in reality are always present. In the first example it was supposed that a great increase of manufactures and population took place without any increase in

the quantity of gold and silver in circulation. Hence it was said that the value of money would be greatly increased; but when the value of money is augmented, the supply is stimulated; and with the growth of commerce various substitutes for money are nearly always adopted. Such counteracting circumstances as these usually suffice to prevent great and sudden fluctuations in the value of money.

The effect of the Gold Discoveries in California and Australia. In the second example a great augmentation of the money in circulation was supposed to take place, without any increase in population or wealth. A very great increase in the amount of money in circulation took place about the year 1850, when the great discoveries of gold were made in Australia and California. Previous to 1850, the annual yield of gold from all sources was about £10,000,000; but for the five years between 1852 and 1857 the Australian and Californian gold-fields each yielded as much as this; the annual supply of gold for these years consequently trebled. It was at first predicted, by all the most competent authorities, that this immense increase in the annual supply of gold would cause the value of gold rapidly to decline, and produce a marked rise in general prices. These predictions, however, were not fulfilled; indeed it was for some time doubted whether the gold discoveries had produced any effect on general prices. After the most careful investigation, it was estimated that in 1870 the value of gold had decreased, since 1850, by about 15 per cent.[1] This comparatively slight decrease bore no proportion to the increase in the supply of gold. It is therefore interesting to inquire why it was that this very large increase in the annual supply led to such an insignificant decline in the value of gold. One reason may be found in the indestructibility of gold; although the increase in the *annual supply* of new gold amounted to 300 per cent., the increase to the total amount of gold in use throughout the world was very much less great. The exact amount of gold in use before 1850 cannot be known; but good judges

[1] The principal authorities on the subject of the effect of the gold discoveries on prices are the late Professor Cairnes and the late Professor Jevons.

have estimated it at £560,000,000.[1] The new discoveries did not increase this amount in any one year by more than about 5 per cent.; and it took more than 20 years after the discovery of the new gold-fields to double the stock of gold in the world.

The excessively high rate of production of gold was not maintained in Australia and California for more than a few years. The richest deposits were quickly exhausted, and the annual yield of gold, which in 1856 reached £32,000,000, fell in 1860 to £18,000,000, and in 1881 it was £21,500,000.[2] But perhaps the most important of the reasons why the gold discoveries did not produce more effect in lowering the value of gold are to be found in a variety of circumstances which led to a very great development of trade and industry simultaneously with the gold discoveries, thus causing the new gold to be absorbed without producing a marked rise in prices.

1st, The commerce not only of England but of the whole civilised world then began to feel the full effect of the application of steam to industry and to means of transit.

2nd, The adoption of free trade in England caused our commerce to advance with a rapidity before unknown. Between 1848 and 1860 England's exports advanced in value from £60,000,000 to £135,000,000; in 1886 they reached

[1] The total stock of gold in the world was estimated in 1894-5 to be about £720,000,000. In 1900 it was estimated to have reached £847,000,000. In arriving at this figure £25,000,000 annually are allowed for the use of gold in the arts and manufactures, and for loss from wear and tear. See *Journal of the Statistical Society*, p. 423, September 1901.

[2] It has been pointed out in a previous chapter that since 1881 there has been a great development in the annual production of gold. The quinquennial average rose from—

1881—1885 = £20,804,900
1886—1890 = £22,640,000
1891—1895 = £31,000,000
1896—1900 = £50,432,000

The highest total yet reached for any one year was in 1899, when the total production of the world exceeded £60,000,000. This high figure would have been higher still but for the South African War, which almost stopped production from the Rand mines in the last three months of the year.

£212,000,000 ; in 1900 they attained the highest value yet recorded, viz. £283,000,000 (exclusive of ships and boats with their machinery, which were recorded for the first time in 1899) ; and the imports have increased with even more wonderful rapidity. All the additional buying and selling which these figures imply go far to account for the absorption of the new gold.

3rd, Railways and other works of public utility began to be carried out in India, causing many millions of silver to be sent to that country to pay wages, etc. This silver was obtained to a large extent by withdrawing the silver in circulation in France and other countries, the currency thus withdrawn being replaced by gold. It has been estimated that in seven years £43,000,000 of English capital was thus expended in India.

4th, More recently the demand for gold has been further enhanced by France, Germany and other countries substituting a gold for a silver standard, while the United States, which for many years had an inconvertible paper currency, has resumed specie payments.

It has been already pointed out that the advocates of bimetallism contend that these circumstances combined have done more than counteract the effect of the gold discoveries of 1850, and maintain that between 1874 and 1896 there was not a plethora but a scarcity of gold, producing a rise in its value and a consequent fall in prices. That there was a fall in prices is unquestionable ; though to what degree this fall is due to an appreciation of gold, or to a reduction in cost of production of nearly all other articles, is still disputed. The facts above enumerated are however sufficient to call to mind the large number of modifying circumstances which, in our complex industrial organisation, prevent an increase in the supply of the precious metals from exercising its full effect on prices. It should be borne in mind that the four circumstances above mentioned, as having produced the absorption of the new supplies of gold, were quite independent of the gold discoveries ; the development of commerce in England, the growth of population and wealth consequent on free trade, and the accompanying expansion of trade to

the East, would have taken place whether the gold-fields had been discovered or not. They were not in any sense produced by the augmentation of the supply of gold. Had the gold discoveries been made at a time when commerce and population were stationary, no general benefit would have been reaped by any countries except those actually in possession of the gold mines ; and the benefit to these countries, it must be remembered, consists principally in increasing their purchasing power. Australia and California, as Prof. Cairnes has pointed out, benefited by the gold which they produced in so far as they parted with it by purchasing the commodities produced by other countries. They also no doubt benefited in consequence of the very rapid immigration consequent on the gold discoveries. Nothing causes so much excitement as the discovery of new gold-fields ; thousands of emigrants flocked to Australia directly the news of the gold discoveries reached them. Thus the population of Victoria increased in the six years between 1851 and 1857 from 77,000 to 410,000 ; and this rapid increase of population in a sparsely peopled and fertile colony is very conducive to the development of its resources and the consequent increase of its wealth. The gold discoveries stimulated trade between the regions where they were made and other parts of the world in another way. At the beginning of the gold discoveries in Australia, an ordinary labourer with no expensive machinery could find on an average a quarter of an ounce of gold a day. This means that he was earning at the rate of about £1 a day : hence wages in all parts of Australia for all kinds of manual work rose to about the same rate, and shepherds, carters, etc. were paid £1 a day. It is easy to see how much this stimulated their demand for all kinds of manufactured and other produce, and what activity it would cause in the chief trades supplying them with necessaries and luxuries.

The gold discoveries have been of great service to the whole mercantile world because they increased the supply of the circulating medium just at the time when the growth of commerce made the increase most needful. It would have been a great commercial misfortune and embarrassment if

the gold discoveries had taken place at a time when trade was stationary; the terms of all monetary contracts would have been disturbed by the alteration in the value of gold. Every one would probably have had more money, but the purchasing power of money would have decreased. It must not be forgotten that if general prices are doubled, a man who formerly had a pound a week is no better off if he is now in receipt of two pounds a week; because the two pounds will only exchange for the same quantity of commodities that could formerly be obtained for one pound. M. Bastiat's illustration, at the end of the second chapter of this section, demonstrates the truth of this assertion. If, in a game of cards, the stake remain unchanged, it matters little how many counters are used to represent the stake. The fewer the counters, the greater the value they represent; the greater the number of the counters, the less is their exchange power.

QUESTIONS ON CHAPTER IV. *The Value of Money.*

1. What is the meaning of the phrase "price of money"?

2. Why in an economic sense is such an expression meaningless?

3. What is the value of money? Why is it sometimes erroneously supposed that the value of money is invariable?

4. Into what class of commodities must money be placed in relation to its value?

5. How is the value of the precious metals regulated?

6. What circumstances have occasioned a fall in the value or purchasing power of silver?

7. Name the principal circumstances which produce a demand for gold and silver.

8. Explain the manner in which the demand for money varies with national wealth and population.

9. By what means is the use of money, in large commercial transactions, usually dispensed with? Give an illustration.

10. Illustrate the manner in which the demand for money is increased when commodities are bought and sold for money many times, previous to their consumption.

11. Shew by an illustration the action of increased demand upon the value of money.

12. Shew by an illustration the action of increased supply upon the value of money.

13. Why do the results described in these examples never actually occur?

14. What circumstances generally counteract the effect of increased demand for gold and silver?

15. What has been the effect of the gold discoveries upon the value of money?

16. Enumerate the circumstances which caused the decrease in the value of gold after the great discoveries in 1850 to be comparatively so slight.

17. Describe the action of these circumstances on the demand for gold.

18. Were the gold discoveries the cause of the increased trade and population of England?

19. What would have been the result had the gold discoveries been unaccompanied by an increase of wealth and population?

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1. Suppose a wealthy millionaire desired to confer a benefit upon the inhabitants of some island that had no commercial relations with the outside world, would he accomplish his object by doubling the amount of money possessed by each of the islanders?

2. If population and commerce increased so that twice as many people were receiving wages, and twice as much buying and selling took place, what would be the effect on general prices and wages, supposing that the supply of money remained the same?

3. If you could choose which of two Australian vessels should be lost, one laden with gold or one containing a corresponding value of wool and corn, which would you select?

4. Would the wealth of England have been increased if the country had contained gold mines, instead of our iron and coal?

SECTION III

The Distribution of Wealth.—Introductory Remarks

Wealth is divided into Rent, Wages and Profits. In a previous section on the Production of Wealth it was stated that the three agents of Production were Land, Labour and Capital. It is therefore evident that Wealth is distributed between those who respectively own these agents of production, *i. e.* between the Landlord, the Labourer and the Capitalist. The share allotted to the Landlord is termed Rent ; that possessed by the Labourer is called Wages, while that belonging to the Capitalist is termed Profits. Wealth is therefore divided into three parts, viz. the Rent of Land, the Wages of Labour, and the Profits of Capital. In the following chapters the proportion which these three parts bear to each other will be pointed out, and the circumstances will be explained which cause an increase in one and a corresponding decrease in another. It will for instance be shewn why a decline in general profits causes an increased amount to be paid as rent. This and many other interesting economic problems will easily be solved by those who rightly understand the laws which govern the distribution of wealth.

Rent, Wages and Profits are in various countries owned by different combinations of persons. In the case of agricultural industry, Rent, Wages and Profits are nearly always in this country allotted to three distinct classes, viz. Landlords, Labourers and Capitalists. It must however be borne in mind that in other countries different modes of distribution prevail. In many parts of the Continent the

same individuals frequently possess all three of the agents of production. Land, Labour and Capital being in this case provided by one person called a peasant proprietor, he derives all the wealth which they are capable of producing, viz. Rent, Wages and Profits. In Ireland and in India labour and capital are in many cases provided by the same individual, who is a peasant tenant. In this case the tenant can fairly claim both wages and profits as his own, the rent only being the due of another person. From these examples it is seen that, in different countries, Land, Labour and Capital are owned by different combinations of persons, or, in other words, different tenures of land prevail.

Questions on the Introductory Remarks on Section III.

1. Into what shares is wealth divided, and to what productive agents do these shares correspond?
2. Are these shares always owned by different persons?
3. Mention some of the modes prevailing in different countries of distributing these shares.

Chapter I. *The Rent of Land.*

A definition of Rent. Rent is that share of wealth which is claimed by the owners of land; it is the price which is paid to them for the use of their land. The rent of land is regulated in some countries by custom, and in others, as in England, by competition. The regulation of rent by competition means that, subject to certain conditions, the landlord will let his land to the farmer who offers him the best price for it. When rents are determined in this way there is virtually a bargain between landlord and tenant, just as there is between the buyer and seller of any ordinary commodity.

It is proposed first to explain the principles which determine the rent of land as regulated by competition, and then briefly to describe some of the tenures which are controlled

by custom. It is unnecessary in this place to inquire how the owners of land originally came into possession of that which neither they nor any other persons have assisted to produce. It is sufficient to recognise that the land is in the possession of certain individuals, and the conclusions arrived at in this section will be based on this recognition. Rent is the effect of an appropriated natural monopoly. Land being absolutely limited in amount and the demand for it being very general, the owners of land can nearly always obtain a rent for it. "The reason why landowners are able to require rent for their land, is that it is a commodity which many want, and which no one can obtain but from them." (Mill's *Principles of Political Economy*, vol. I. p. 505.)

A further analysis of the nature of Rent. The rent of agricultural land is regulated by two circumstances : the fertility of the soil, and the convenience of situation. When either of these conditions is altogether absent land can command no rent. Thus no one will pay rent for land which is so barren that the produce yielded by it is insufficient to remunerate the capital and labour expended in its cultivation. On the other hand, the most fertile land sometimes yields no rent, on account of the inconvenience of the situation in which it is placed. There are tracts of land in America, Africa and Australia in this condition ; they are far removed from the great centres of population ; roads, railways and water-carriage all being absent, there is no means of disposing of the abundant crops which the land is capable of producing. Such land as this consequently yields no rent. Some land of great natural fertility, situated most conveniently for the disposal of the produce, yields no rent ; because the crops are either wholly destroyed or greatly injured by swarms of hares and rabbits. The loss arising from this cause was not borne by the owner of the land only ; it was also felt by the entire nation, which suffered a loss similar to that which it would have to bear if the natural fertility of the soil were reduced to an extent corresponding to the damage done by the hares and rabbits. The farmer may be compensated by reduction of his rent ; but the consumers of

agricultural produce have to give an increased price for it, in consequence of the diminution of the production.[1]

Land in all countries varies greatly in fertility and in convenience of situation, and the rent of land, where rent is regulated by competition, varies in exact proportion with the productiveness[2] of the soil. If, for instance, there are two farms, one of which, owing to its superior productiveness, yields a much larger return to capital and labour than the other, the rent of the more productive farm will exceed that of the less productive farm by an amount exactly equalling the pecuniary value of the advantages of the first farm over those of the second farm. But it may still be asked, "What determines the amount of rent paid by the two farms? It is quite evident that the more productive farm will pay a higher rent than that paid by the less productive farm; but what determines the rent of the latter?" In answering this question it will be necessary to explain Ricardo's theory of rent.

Ricardo's theory of Rent. The rent of the less productive farm is determined by the pecuniary value of the excess of its productiveness over that of the worst land in cultivation which pays only a nominal rent. This is a short statement of Ricardo's theory of rent, which we will now proceed to prove. In every country there is some land so barren or so inconveniently situated that the produce yielded by it is only sufficient to pay the wages of labourers who till it, and to yield the ordinary rate of profit to the farmer. This land can obviously pay no rent, for if it did pay rent the cultivator would not receive the ordinary rate of profit upon his capital. The land would therefore cease to be cultivated if rent were exacted, for men will not continue to employ their capital in an occupation which yields less than the ordinary rate of profit.

The margin of cultivation. The rent of any particular

[1] In 1881 an Act was passed enabling tenants of farms to destroy hares and rabbits: since that time therefore the evil spoken of above has been greatly lessened.

[2] Productiveness is here and in other places intended to signify both fertility and convenience of situation.

land is therefore determined by the excess of its produce over that yielded by the least productive land in cultivation which pays no rent. This land is described by Ricardo as being upon the margin of cultivation, because land of still inferior productiveness, though free from rent, would not yield the ordinary rate of profit to the cultivator if agricultural prices remained unchanged. This leads to the second part of the explanation of Ricardo's theory.

The position in the scale of productiveness of the margin of cultivation determines the price of agricultural produce. It is evident that the productiveness of the land on the margin of cultivation varies greatly at different times and in different countries. The price of agricultural produce is determined by the cost at which the most costly portion is raised; or, in other words, by the position in the scale of productiveness of the margin of cultivation. The questions therefore remain to be decided, "What determines the position in the scale of productiveness of the cultivated land that pays no rent?" and "Why would land which is on the margin of cultivation in Australia yield a large rent if it were in England?" A consideration of the price of agricultural produce furnishes the answer to both these questions. The position of the margin of cultivation is determined in all countries by the necessities of the population and the means at their command of satisfying them; supposing that the area from which food can be obtained is absolutely limited, an increase of population necessitates a resort to less fertile land within that area. This is a lowering of the margin of cultivation, and would produce a rise in the price of agricultural produce and also a rise in rent. On the other hand, where the area from which food can be obtained is indefinitely extended through improved means of communication with foreign countries, the increased demand for food of an increased population may be satisfied without causing a lowering of the margin of cultivation. This has happened in England during the years 1878–1904. The increased supply of food demanded by an increased population has been met by increased facilities for obtaining food from abroad. There has

therefore been a fall in prices and a consequent raising of the margin of cultivation shewn by some land falling out of cultivation and by a general reduction of agricultural rents.

Where agricultural produce is cheap the margin of cultivation is high, as it is in Australia, where the cultivation of none but highly productive land is profitable. As agricultural produce becomes dearer the margin of cultivation descends, because it then becomes profitable to cultivate soils of inferior productiveness. The truth of this assertion may be made evident by an illustration. Suppose that the price of agricultural produce suddenly rose one-third. The returns of farmers would be increased by a corresponding amount. The profits of farmers would then greatly exceed the average rate. But the competition of other traders would prevent farmers from permanently appropriating exceptionally large profits. The farms would consequently be let at increased rents. The land, formerly on the margin of cultivation, would now yield rent, and the margin of cultivation would consequently descend.

A very striking example of the fact that the margin of cultivation varies from year to year, with changes in the price of agricultural produce, may be seen on Salisbury Plain. Some of the land there is so barren that it does not pay a farmer to cultivate it unless the price of agricultural produce is high. When therefore prices were high some of the most barren land was cultivated, and the thin crops raised upon it remunerated the farmer for the capital and labour expended upon it. But when prices declined this land ceased to be cultivated, because the sale of the produce did not give a fair return to capital and labour. In a previous chapter the great rise in the price of coal which took place about 1872 was referred to; and it was then shewn that this rise in price caused seams of coal to be worked at a profit which were so comparatively unproductive that they had to be abandoned when prices fell. The margin of cultivation (if this expression may be used in reference to a mine) declined when prices rose, and returned to its normal condition when the era of exceptionally high prices came to an end.

An increase of population tends to increase the price of agricultural produce. It must be borne in mind that a lowering of the margin of cultivation can be produced only by an increase in the price of agricultural produce, because increased prices are necessary to render the cultivation of land below the margin of cultivation profitable. It has previously been pointed out that no circumstance is so potent in producing an augmentation of the price of agricultural produce as an increased demand for it, consequent on an increase in the population. An increase in the population necessarily implies an increased demand for agricultural produce. This increased demand raises the price, and it therefore becomes profitable to cultivate land of inferior productiveness to that formerly on the margin of cultivation. Hence an increase in population, causing an increased demand for agricultural produce, tends to raise its price and produce a lowering of the margin of cultivation.[1]

The increase of population tends to raise the rent of land in two ways. In the first place, by stimulating the demand for agricultural produce it increases the value of it; and in the second place, in consequence of the lowering of the margin of cultivation, the share of the produce allotted to the landlord as rent is increased. For rent has been defined as the difference in value between the productiveness of any particular land, and that of the worst land in cultivation which pays no rent. Hence, when the margin of cultivation is lowered, this difference becomes greater and the rent of all land is increased. Let it be supposed that the value of the productiveness of some particular farm is represented by the number 100, and that the value of the productiveness of the land on the margin of cultivation is represented by 30. Then the rent of the first farm is represented by the number 70; but if the margin of cultivation is lowered so that the value of the productiveness of the worst land in cultivation

[1] The tendency exists, though, as frequently pointed out, it is counteracted when improvement in the means of communication brings the produce of more productive land within the reach of the consumer.

which pays no rent is represented by 20, then the rent of the first farm becomes equal to a sum represented by the number 80.

A brief recapitulation of Ricardo's theory. The rent of any particular land is the difference between its productiveness and the productiveness of the worst land in cultivation which pays no rent, that is, the land on the margin of cultivation. Any circumstance therefore which causes the margin of cultivation to descend increases rent, because it increases the difference between the productiveness of any particular land and that of the worst land in cultivation which pays no rent.

There is a certain antagonism of interest between the owners of land and the consumers of agricultural produce. From Ricardo's theory of rent may be deduced the proposition that in some respects there is an antagonism of interest between the owners of land and other classes of the community. The increase of population exerts a powerful influence to increase rents; but if carried beyond a certain point it is disastrous to the general interests of the community. If it were not for the fact that the rates for the relief of the poor are to a very great extent a charge on land, this antagonism of interest would be much more powerful than it is. If the landlords were relieved from the cost of pauperism it would be actually advantageous to the pecuniary interests of the owners of the soil that people should marry recklessly, and bring large families into existence, so that population might be increased and rents raised. Regarded from this point of view, it is a wise precaution which has entailed on landlords the disagreeable as well as (to them) agreeable results of over-population. If landlords were relieved from bearing the cost of pauperism they would really grow rich on the improvidence of the poor. The very same circumstance which produced the increased wealth of the one class would deepen the misery and degradation of the other. Hence while the landlord was becoming more and more wealthy, the struggle for existence among the very poor would become more and more intense. The tendency of this antagonism of interest

is to a great extent counterbalanced by the cost of pauperism; and there are fortunately many other respects in which the interests of the owners of land and those of the general community are identical. Another example may be given of antagonism of interest between landowners and the rest of the community. The population generally benefits by any circumstances which make food cheap: hence the importation of wheat from America and India, of beef and mutton from Australia, New Zealand, and Canada, have been an immense advantage to the general community and to the labouring classes in particular. But they have caused great losses, through necessary reductions in rent, to the owners of land: and their losses have to some extent been shared by farmers.

In some respects Interests of Landlord, Capitalist and Labourer are identical. Notwithstanding that increased pauperism and increased rents arise from the same cause, it does not follow that the interests of landowners and of other classes are necessarily opposed under all circumstances. On the contrary, the interests of the landlord, the capitalist and the labourer are in some respects the same. All are interested in rendering land, capital and labour as productive as possible. It is conceivable that some agencies may vastly increase the productive power of land, labour and capital; in this case the share of wealth allotted to each might be increased, because there would be more to distribute as rent to the landlord, profits to the capitalist, and wages to the labourers. A few years ago the wages paid to agricultural labourers in the south of England were so low, and at the same time the prices of food were so comparatively high, that it was contended that the efficiency of the labourer was very materially reduced. The labourer was habitually underfed and unsuitably clothed, he became prematurely old and feeble; this being so, many who knew intimately what his daily life was, asserted that if he were a slave or a cart-horse it would serve the pecuniary interests of his owner to feed, house and clothe him better than he could afford to feed, house and clothe himself upon his wages. It was therefore argued that if the labourer

received higher wages, his labour would become more efficient, and he would consequently be a more valuable servant to his employer. The improvement in the labourers' condition which has lately taken place, did not however proceed from the enlightened self-interest of their employers. It was due to a combination of causes, among which may be mentioned—1st, The great fall in the price of provisions consumed by the labourers, such as cheese and bacon, owing to the recent great importation of these things from America, etc. This raised the daily standard of comfort of the entire class. 2nd, The gradual spread of education awakened the agricultural labourer to the fact that he was worse off than other labourers; he became discontented with wages at 9*s.* a week; railways and steamships gave him (materially speaking) the power to move to places where his labour would be better paid; the energy and enterprise which were the result of education gave him the moral power which the move required. Until a few years ago the agricultural labourers were practically excluded from the influence of competition. They were too ignorant and too timid to leave their homes in search of better paid employment. They were almost as incapable of independent action as the sheep and cattle they tended in the fields. Now however this state of things has come to an end; there is a constant flow of population out of the agricultural counties into the manufacturing centres. It is perhaps too soon at present to say what the effect of this change will be on rent and on the profits of the farmers; it may however be hoped that, when the present rather transitional condition of things is over, the farmers as well as the labourers will benefit from the improvement in the intelligence and material comfort of the labourer. One fact may be mentioned in support of the reasonableness of this expectation. In Scotland and in Northumberland the labourers have long been in a position very greatly superior to the labourers in the south of England; they are better educated, better housed and better paid; and not only are rents higher and the general condition of agriculture more satisfactory, but the labour bill on farms of a similar size

and nature is actually less in those districts where wages are high than in those where wages are low. The labour bills of two farms of 380 acres, each requiring the same kind of labour, the one in Aberdeenshire and the other in Norfolk, have been compared; the Scotch labourers were paid 20*s.* a week, the Norfolk labourers 14*s.*, yet the labour bill for the year was only £510 in Aberdeenshire compared with the £800 in Norfolk. The superior intelligence and energy of the labourer more than compensated the Scotch farmer for the higher rate of wages he was paying.

Population not a measure of National Prosperity. There are a vast number of economic problems which will be solved with perfect readiness by those who have a thorough grasp of Ricardo's theory of rent. A right understanding of this theory and of the proposition enunciated in Section I., that a demand for commodities is not a demand for labour, will enable the student to detect and avoid some of the most common fallacies, which are often propounded as if they were self-evident truths. Such, for instance, as the statement so often either expressed or implied in the newspapers and elsewhere, that the prosperity of all countries is accurately measured by the growth of their population—that in proportion as population increases, national prosperity also increases. This statement is, no doubt, within certain limits true, in a country like Australia, where there is abundance of fertile land, and where consequently the necessaries of life are very cheap. In such a country an increase of population augments the national wealth because an additional supply of labour is wanted to develop its great natural resources. But in some countries, such as India, an immense increase has taken place in the population, without a corresponding increase in wealth; the standard of comfort of the population has been lowered, and vast numbers are constantly living just on the verge of pauperism and starvation. The people have no reserve of any kind, and the failure of a crop immediately brings the pinch of want; they cannot meet bad times by giving up luxuries in order to buy necessaries; they have no luxuries; they have no cheaper kind of food to

which they can resort; they are already at the bottom of the scale of human existence, and to fall any lower means actual famine. It is obvious that in a country in such a situation as this, increase of population is in itself no indication of increased prosperity.

Rent does not increase the price of Agricultural Produce. One of the most important conclusions deduced from Ricardo's theory is that rent does not form a part of the price of agricultural produce; or, in other words, that agricultural produce would be no cheaper if all rents were remitted. We have seen that the price of agricultural produce is determined by the position of the margin of cultivation. The price of the produce must be such as to remunerate the capital and labour expended in tilling the worst land in cultivation which pays no rent. If prices were less, this land would cease to be cultivated, and the margin of cultivation would rise. But this cannot take place because the demand for agricultural produce would not be diminished by the remission of rents, and therefore as large a quantity of agricultural produce would be required as before; and, as previously stated, the demand for agricultural produce determines the position, in the scale of productiveness, of the margin of cultivation.

The rent of land, regulated by competition and consisting of the excess of its return above the return of the worst land in cultivation, is called the rack-rent.

One of the objections sometimes urged against Ricardo's theory is, that there can be no cultivated land rent free, as all farmers have to pay rent. It is no doubt true that there are few farms entirely composed of land which is so unproductive that it yields no rent; but many farms contain portions of such land, and though the rent may be reckoned upon the total number of acres of which the farm is composed, the rent would not be decreased if that land were subtracted which yields only sufficient produce to give the ordinary rate of profit to the cultivator, and to pay the wages of the labour expended in its cultivation. It is also objected to Ricardo's theory that farmers and landlords know nothing about it, and do not regulate the rent of land in accordance

with it. This is something like saying that the discoveries of anatomists must be wrong because most people live all their lives without knowing how their bodies are put together. People can eat what agrees with them without understanding the process of digestion, and they can pay or receive a rack-rent without ever having heard of Ricardo's theory.

The influence of custom on Rent. Throughout this chapter it has been assumed that rents are entirely regulated by competition. In England and Scotland this is almost invariably the case, but in most countries custom has a powerful influence in regulating rents. In some parts of Italy and France, for instance, a tenure prevails called the metayer tenure, in which the produce of the soil is divided in a certain fixed proportion between the owner of the land and the cultivator. This proportion is usually one-half, but in some districts the owner of the land receives as much as two-thirds. The proportion allotted to the landlord is fixed by custom, and not by competition. Custom also regulates what part of the capital necessary for tilling the soil shall be provided by the landlord. In some places he supplies all the stock, implements and seed which the cultivation of the land requires; in other districts the landlord furnishes the cattle and the seed, and the labourer provides the implements. The customs seem to be quite arbitrary, and are controlled by no fixed rule. Political economy cannot therefore define what circumstances determine the proportion in which the produce of a farm is distributed between the metayer tenant and his landlord. It will, however, be useful to consider the influence of the metayer system on the rent.

The influence of the metayer system on Rent. In those cases where rents are regulated by custom rather than competition, the landlords are compelled to sacrifice some part of what may be called the economic rent as defined by Ricardo's theory. In Tuscany, for instance, the metayer rent is two-thirds of the produce, on soils of all degrees of productiveness. Now it is evident that if one-third of the produce of the least productive farm in Tuscany is sufficient

to remunerate the cultivator for his capital and labour, one-third of the produce of the most productive farm in Tuscany must be more than sufficient to give the same rate of wages and interest to its cultivator. Under the metayer system the tenant shares with the landlord the advantage arising from the superior productiveness of the soil. Under the rack-rent or competition system all the surplus which remains after paying wages to labour and the current rate of profit to the farmer is claimed by the landlord as rent, so that tenants do not reap any permanent advantage from the superior productiveness of their farms. Under the metayer system the cultivator obtains some part of this surplus, he therefore possesses a beneficial interest in the productiveness of the soil. It is probable that this fact exercises a powerful influence in stimulating his industry, and the metayer tenure, though disadvantageous to landlords, may be beneficial to the general community. The economic defect of the metayer system is that it tends to prevent the expenditure of capital in permanent improvements. For instance, a metayer farm might want draining; the landlord would know that if he provided the necessary capital for drainage the farm would be more productive, but that he would not be able to obtain more than one-half or two-thirds of its increased productiveness. Similar considerations deter the expenditure of capital on the part of the tenant. It must not however be overlooked that under the rack-rent system there is no inducement for a tenant to employ his capital in permanent improvements, unless he holds a sufficiently long lease to enable him to secure a satisfactory return on his expenditure.

The custom of Ulster Tenant-right. In some parts of Ireland, especially in Ulster, the amount of rent received by landlords is reduced by what is called the Ulster Tenant-right. According to this custom the in-coming tenant pays to the out-going tenant a certain sum, partly as a consideration for the good-will of the farm, and partly as compensation for unexhausted improvements. The sum paid for good-will is really a part of the economic rent. If the in-coming tenant had not to pay this sum, he would be obliged to

pay more rent. The custom therefore divides the economic rent into two parts, one of which is capitalised and paid by the in-coming tenant to the out-going tenant; the other part is paid in the usual manner annually to the landlord. The economic advantage of this custom is that it gives practical security of tenure to the tenant, by recognising that he has a proprietary right in the soil. On the other hand, it is stated that the custom is economically pernicious because it reduces the capital of the in-coming tenant just at the time when he wants it most to stock his new farm. In answer to this objection it may be urged that the capital of the tenant would not be invested in the land at all, if it were not for the security of tenure which the tenant-right gives. The practical effect of the Ulster Tenant-right seems to be most satisfactory. Those parts of Ireland where it operates present a most favourable contrast to those districts where no similar custom prevails. The Ulster custom, although very prevalent, had formerly no legal sanction. Prior to 1870 there were really two laws in Ireland, one the law of the land, and one sanctioned by the customs and habits of the people. The Irish Land Act of 1870 reconciled these two conflicting systems by legalising the Ulster custom of tenant-right. The Irish Land Act of 1881 has supplemented that of 1870, and the Act of 1881 has necessitated that of 1887. The attempt made by the Act of 1881 to fix rents for 15 years was signally unsuccessful. The effort to fix by law what is essentially dependent on variable circumstances is foredoomed to failure. An Act of Parliament might as well have been passed to suspend the law of gravitation. This futile provision of the Act of 1881 led to fresh legislation in 1887. The general effect of the Irish Land Acts of 1870, 1881 and 1887 has been to create or rather to legalise a joint ownership in the land between the tenant and the landlord. The Act of 1903, as previously explained, further facilitated the purchase by the tenants of their holdings. The old copyhold tenure in England is an instance of another kind of dual ownership.

The Cottier and Conacre Tenancies of Ireland. The Cottier tenancy of Ireland may be described as a tenure in

which the rent was forced up beyond the rack-rent by the competition of an excessive population. The nominal rent of a cottier tenure was sometimes fixed at an amount exceeding in value the whole of the produce of the land. Under this wretched system the tenant knew that the landlord would be obliged to leave him just sufficient potatoes to keep himself and his family from starvation. He was never able to pay the full nominal rent; he was therefore constantly in arrears with his landlord. He had no motive for energy and industry, for the landlord was able to appropriate all the results of his labour in payment of the arrears of rent. At the same time the tenant had no prudential motives to restrain him from marrying and having a numerous family, for he was aware that the landlord could not deprive him and his children of the bare necessaries of life. No system of land-tenure could have been more mischievous in its economic, social and moral results than the cottier tenancy of Ireland.

There is in Ireland another sort of tenure called Conacre. Under this system it was the practice of a landlord who required work done on his estate to pay the labourers by giving them a small plot of manured land rent-free.

Having now described the nature of Rent as regulated by competition, and explained the character of some tenures which are controlled by custom, the wages of labour will be next considered.

QUESTIONS ON CHAPTER I. *The Rent of Land.*

1. What is rent? Explain what is meant by rents being determined by competition.

2. What is the reason why landlords are able to require a rent for their land?

3. What two elements must always exist in land which pays rent.

4. What determines the rent of any particular land?

5. What is meant by "the margin of cultivation"?

6. What determines the position of the margin of cultivation?

7. Give an illustration of the manner in which the margin of cultivation varies with the price of agricultural produce.

8. What determines the price of agricultural produce?

9. In what two ways is Rent increased by the lowering of the margin of cultivation?

10. Briefly recapitulate Ricardo's theory of Rent.

11. In what sense are the interests of landowners opposed to those of all other classes of the community?

12. In what respects are the interests of landlord, farmer and labourer identical?

13. Shew that low wages are not always profitable to the farmer and the landlord.

14. In what way does an increase of population affect the prosperity of a country like Australia?

15. What is the effect of increased population on the prosperity of a country like India?

16. Prove that rent is not a part of the price of agricultural produce.

17. Are rents always regulated by competition?

18. Describe the metayer tenure.

19. Does the landlord under this system get as large a share of the produce as he does where rent is regulated by competition?

20. What are some of the advantages and disadvantages of the metayer tenure.

21. Describe the Ulster custom of tenant-right. What are its advantages and disadvantages?

22. What is the cottier tenure of Ireland?

23. Describe its disadvantages.

24. What is conacre?

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1. If a farmer pays a rack-rent for his farm, will it make any difference to him whether the land be barren or productive?

2. If a hundred square miles of fertile land could be added to the area of England, what effect would it have on the price of agricultural produce?

3. If you were going to be a farmer, would you rather pay a rack-rent, or would you prefer being a metayer tenant?

4. If all the landlords in England excused their tenants paying rent, would bread be cheaper?

5. If all farmers instead of paying their rent to private individuals paid it into the national exchequer, what effect would it have on the general wealth of the country?

CHAPTER II. *The Wages of Labour.*

That part of wealth which is given in exchange for labour is called wages. Mr. Henry George's objection to the statement that wages are paid out of capital has been referred to on a previous page. It is certainly important never to forget that the ultimate source both of wages and profits is the value of that which labour and capital combine to produce: but as the capitalist is in a position to wait for his reward till the commodity produced is ready for market, and as the labourer in the present condition of society generally speaking cannot wait, the labourer's share of the value of the commodity is advanced to him by the capitalist in the form of weekly wages; and in this sense wages are paid out of capital and are part of the expenses of the production of any particular commodity.

Wages as regulated by Competition. Wages, like rent, may be regulated either by custom or by competition. They are, however, for the most part, regulated by competition, that is to say, the labourer tries to get as much as possible in exchange for his labour, and the employer tries to obtain labour at the least cost to himself. There are, of course, exceptions to this general assertion; there are many labourers who would not leave an old master in order to gain an increase of wages; and it not unfrequently happens that an employer hires labourers partly out of charity, and would not part with some of his labourers even though he could get their work done for a smaller amount of wages. Such circumstances as these are, however, the exception, and not the rule. Employers and workmen may be regarded as

the buyers and sellers of a commodity. Employers want to obtain labour; workmen want to sell it. Employers will try to get labour as cheap as possible, but their competition between themselves tends to raise wages. Suppose that owing to an increase of trade the demand for labour is very active, employers, rather than be deprived of the labour which enables them to obtain their profits, will raise wages in order to retain the services of their employees. The employed try to sell their labour for as much money as possible, but their competition between themselves tends to depress wages. Suppose that three labourers are anxious to obtain work of an employer who only wants the services of one of them. Assuming that all three are equally good workmen, and competition to be unrestricted, the situation will be gained by him who will consent to take the lowest wages. If, on the other hand, three employers are seeking the services of one labourer, he will be hired by the employer who offers the highest wages. It must however be remembered, that the whole industrial population of a country does not compete indiscriminately for all employments. It is rather divided into a series of layers, within each of which considered separately there is a real and effective competition; but as between the different layers or groups competition is practically inoperative. Thus the lowest class or manual labourers are not in competition for the same kind of employment as the skilled artisan; and again, the skilled artisan is not in competition with the professional classes. This limitation of competition is one of the most powerful of the causes which produce different rates of wages in different kinds of employment.

Circumstances which regulate the Amount of Wages. In some industries a much larger proportion of the capital employed has to be devoted to wages than in others. In other words, some industries require a greater proportional amount of labour than others. For instance, the "wages-capital" of a farmer of arable land bears a much larger proportion to his total capital than does the "wages-capital" of a stock farmer, because more labour is needed on an arable farm than on a stock farm. Therefore the character of the

national industries influences the amount of the wages-fund or wages-capital of a country; and average wages in any country depend upon the proportion between its wages-fund and the number of the labouring population. Changes in the character of industry throughout a nation such as that which took place in England during the nineteenth century by the application of steam machinery to manufactures temporarily injured the labouring classes, because it caused a transfer to be made from wages-capital to fixed capital in the shape of machinery. But the injury was only temporary in its nature, because production was so enormously stimulated by the use of machinery that new wealth was quickly created which its owners desired to use productively as capital; new demands for labour consequently sprang up, and the amount of capital devoted to the payment of wages instead of being diminished was in the end largely increased. It has been pointed out on p. 35 that a similar cause, viz. a great extension of the use of labour-saving machinery, has been in active operation since about 1873; and this was probably one of the causes of the depression and scarcity of employment among the poorest classes which attracted so much attention during the winters of 1885–6–7–8. It is however certain that in this, as in former instances, the injury to the labouring classes, though very real for the time, was temporary; and that they, in common with all other classes, ultimately benefited largely by the increased cheapness of commodities and by the consequently increased purchasing power of wages. It cannot be doubted that the general result of the introduction of machinery has been favourable to the working-classes.

Trades' unions. It is sometimes objected that if wages are regulated by the ratio between wages-capital and the number of the labouring population, such organisations as trades' unions must be powerless to influence wages. The contrary is however the case; the managers of a trade's union watch the general condition of the trade to which its members belong; and they are enabled to judge with tolerable accuracy when the condition of the trade is such as to justify a rise or to necessitate a reduction in wages. If, for

instance, there has been a rise in prices without any corresponding increase in cost of production, as there was in the coal trade in 1872, the unionists know that their members are entitled to a rise of wages, and their organisation enables them to obtain this rise of wages more rapidly and certainly than would be the case if they waited till the labour market was influenced by the natural increase in the demand for labour which exceptionally high profits are sure to bring about. After a long period of depression between 1876 and 1888, the English coal trade began to revive and prices went up; the leaders of the trade's union took advantage of this, and demanded and obtained successive advances in wages, amounting in all to 40 per cent., between October 1888 and March 1890. Then prices began to decline, and the employers, in June 1893, demanded a reduction of one quarter on the total increase of wages since 1888. This led to a prolonged and very bitter struggle which lasted three months, during which it was estimated that although the number of men on strike was 300,000, the total number thrown out of employment by the strike was as many as 1,000,000. The price of coal rose to an extraordinarily high figure; all the heaps of refuse coal-dust outside the mines were sold at high prices. The labouring classes suffered doubly; first through the high price of coal; and secondly, in many cases, by loss of employment, for the coal trade affects nearly every other trade. The men eventually were, however, triumphant in the main matter in dispute; they went back to work at the old rate of wages. But it may be doubted whether the struggle did not cost more than it was worth. The direct cost in loss of wages and profits was estimated at £30,000,000. This case may serve as an example of the influence of trades' unions on wages, a subject which will be more fully discussed in a future chapter. A favourable example of their influence is afforded by the successive increases which they were able to secure, with but little difficulty, in the three years 1888–90. Whether their influence was favourable or the reverse, in resisting a reduction in 1893, it was at any rate successful, and the number of tons raised in 1894 having been greater than that of any

previous year, they cannot be said to have permanently damaged the trade.[1]

The influence of Population on Wages. The greatest difficulty hitherto in permanently improving the condition of the labouring population has arisen from the fact that an increase of the wages-fund has been almost invariably followed by a corresponding increase in the number of the wages-receiving class. At the time of the repeal of the corn laws, it was thought by some ardent repealers that the cheap food which the abolition of the duty on corn brought to every cottage in the kingdom would permanently improve the condition of the labouring poor ; it was said that there would be no more starvation and no more pauperism. The workhouses, it was confidently asserted, would soon be in ruins. The result proved far otherwise. The cheap food, which the repeal of the corn laws brought to England, stimulated a vast increase of population ; the benefit which might have been derived from a plentiful supply of cheap food was absorbed by the demands of millions of hungry mouths. For a long time the principal effect, on the labourer, produced by the repeal of the corn laws was that cheap food enabled him, not to live in greater comfort, but to support an increased number of children. These facts lead to the conclusion that no material improvement in the condition of the working-classes can be permanent, unless it is accompanied by circumstances which will prevent a counterbalancing increase of population.

The importance of raising the Standard of Comfort. No circumstance would prevent over-population so effectually as a general raising of the customary standard of comfort among the poorer classes. If they had accustomed themselves to a more comfortable style of living, they would use every effort not again to sink below it. Ricardo says on this subject :—"The friends of humanity cannot but wish that in all countries the labouring classes should have a taste for comforts and enjoyments, and that they should be stimulated by all legal means in their exertions to procure them.

[1] See articles on "The Coal Dispute of 1893," *Economic Journal*, December 1893, and March 1894.

There cannot be a better security against a superabundant population." It is because there has recently been such a distinct advance in the standard of comfort among the agricultural labourers, that there is every reason to hope that the improvement they have effected in their condition will be permanent. The younger generation are prepared to enter other employments, to move to other localities and emigrate to other countries rather than endure the life which their forefathers led. Many circumstances have combined within the last forty years to raise the habitual standard of comfort among the English working-classes. Perhaps the chief of these is the Education Act of 1870. When people are educated they endeavour by all the means in their power to release themselves from the degrading squalor which usually accompanies over-crowding. The spread of education is one of the chief means by which it may be hoped intemperance will be successfully combated. An increase of temperance would certainly raise the habitual standard of comfort. Education may have benefited the working-classes in yet another way: by developing their intelligence it would make them more efficient as labourers, and thus render it possible for them to receive higher wages without reducing profits. Increased facilities in travelling and increased knowledge of the condition of their brethren in Australia, New Zealand, South Africa, America and Canada have also tended to raise the habitual standard of comfort at home. A cabinet-maker, for instance, would no longer submit to very low wages in England when he hears from a comrade who has emigrated to Australia that he could easily earn 10*s.* a day if he came to Rockhampton or Sydney.

Malthus on Population. Malthus, in his celebrated essay on population, shewed that there is a constant tendency in animal life to increase beyond the nourishment prepared for it, and that therefore unless there are some checks placed upon population, the total production of food would in course of time be insufficient to supply the wants of mankind. It has been thought by some that Malthus was manifestly in the wrong, because there appears no likelihood of the means of subsistence becoming insufficient for the wants of the

population of the globe. It must, however, be remembered that what Malthus said was, that this insufficiency would prevail if there were no checks on population. These checks do exist, and are in active operation in every country; that is to say, in every country either the total number of births of which the population is capable does not take place, or else a large proportion of those who are born, die. The population is kept down, either by prudence, or by such agencies as war, famine and disease. The germs of existence both in the animal and vegetable kingdoms, if they could freely develop themselves, would, as Malthus shewed, fill millions of worlds in the course of a few thousand years. "Necessity, that imperious, all-pervading law of nature, restrains them within the prescribed limits. . . . In plants and irrational animals the view of the subject is simple. . . . Wherever there is liberty, the power of increase is exerted; and the superabundant effects are repressed afterwards by want of room and nourishment." He then shewed that man had the same tendency to increase beyond his means of subsistence, and that where no other checks restrained the increase of population it is reduced by the difficulty of obtaining food, by disease, and by other agencies which bring misery and degradation in their train. But beside these positive checks on population, there are also preventive or prudential checks; and in his essay on population he examines the condition of many countries in order to ascertain whether the prudential or the positive check is the more operative. In most countries both checks are in operation: in London the number of children who die of diseases produced by want of food, clothing, and attention, and from over-crowding is appalling, and is a blot upon the civilisation of this country; for it is hardly necessary to say that as civilisation advances, the prudential check grows stronger, and the positive check less active. The civilisation of a country might also be measured by comparing the activity of the prudential check with that of the positive check.

A right conception of the importance of population is fundamental to an understanding of the causes which regulate the wages of labour. An increase in population,

unaccompanied by counterbalancing circumstances, acts upon the condition of the labourer in two ways: it increases the price of food by rendering a resort to less productive soils necessary; and by increasing the number of the wages-receiving class it increases the competition in the labour market and tends to reduce wages.

Emigration is an insufficient remedy for Over-Population. Emigration has been considered by some a sufficient remedy for over-population. There are, however, many objections to relying on emigration as the sole means of checking the natural increase of population. In the first place, those who are the poorest and the most destitute have not the means to emigrate, and if means were provided by the Government or by a national subscription, the colonies would very probably object to being made the receptacles of the pauperism of the Old World. The Government of the United States in 1883 very properly refused to allow ship-loads of destitute Irish families to be landed in that country unless those who paid for the passage of these emigrants would also provide them with subsistence for a certain period. It therefore appears that those whom we are anxious to get rid of, other countries do not willingly accept; whilst those who are prosperous and in good employment have no motive to leave their occupations. In the second place, unless prudential checks are in operation, the place of those who have emigrated will soon be filled by a new generation. And in the third place, emigration cannot be looked upon as a permanent remedy for over-population, because in the course of time the colonies will be as thickly peopled as the old countries of Europe now are, and the principal advantage of emigration will then cease to exist. Notwithstanding the incompleteness of this remedy for over-population, emigration may at the present time do great good, if it is accompanied by increased activity of the preventive or prudential check upon population. For some time to come every skilled labourer who reaches America, Australia or South Africa will be a source of wealth to those nations, whilst his absence will tend to reduce the overstocked labour markets of Europe. The voluntary emigration of labourers from Ireland

to America has no doubt been very serviceable to both countries; and a somewhat similar movement on the part of English agricultural labourers, although on a very much smaller scale, has recently produced a very marked improvement on the condition of those who have remained at home, whilst skilled farm-hands are most warmly welcomed in Canada, Australia and New Zealand.

The effect on Wages of a local Decline in Profits. An historical survey shews that the rate of profit has in all countries declined with the increase of wealth and population. The causes which have produced this universal decline in the rate of profit will be investigated in the next chapter; it is sufficient here to shew the influence on wages of a local and not a general decline of profits. Suppose that the labourers engaged in any particular trade are receiving such an amount of wages that their employer's capital is remunerated by no more than the average rate of profit. If these men strike for higher wages, and succeed in obtaining them, the employer will carry on his business at a comparative loss, that is, he will be receiving less profit than he would realise in other trades. He will therefore be careful not to extend his business; and if the loss remain permanent he will gradually withdraw his capital, and invest it in other trades. The benefit, therefore, that the labourers derive from a rise in wages which causes profits to sink below the average rate is only temporary. If it be true that previous to the agricultural strikes which took place a few years ago, farmers were gaining something less than the ordinary rate of profit upon their capital, the success of the labourers in obtaining higher wages must produce a change in the conditions of agricultural industry. The farmers will not go on employing their capital for a less reward than they could obtain in other employments. Possibly the increased wages will make labour more efficient; if this be the case, the farmer will be compensated for his extra outlay by better crops, or by employing fewer hands. Possibly the higher rate of wages will induce the farmer to use more machinery than he has hitherto done; the size of farms will be increased, and the use of the steam-plough, the reaping-

machine and the haymaking-machine will become universal. If this be the case, the farmer will employ comparatively few men; and those he does employ will be highly-skilled agricultural mechanics who will receive correspondingly high wages. In the meantime the extinction or the removal of the old-fashioned labourer, of the type suggested by the nickname "Hodge," will be a process accompanied by acute suffering and much bitter heart-burning. Hodge is not quick to emigrate, he is still less quick in developing into an agricultural engineer, or a town artisan; and his sufferings must be put down as a set-off against the advantages of a highly-skilled and highly-paid class of agricultural labourers. There is another way in which the farmer may be compensated for his loss, if his profits are reduced below the ordinary rate in consequence of the higher wages obtained by the labourers. His rent may be reduced. If this alternative be practicable, it would be accompanied by far less suffering than that involved in the summary extinction of Hodge.[1]

The effect of increased Efficiency upon the rate of Wages. Another means of increasing wages is provided by any circumstance which increases the efficiency of labour. If more wealth is produced by the joint agency of land, labour and capital, there will be more to distribute as rent to the landlord, wages to the labourer, and profits to the capitalist. If education, or any similar agency, should cause the labourer to work with more intelligence and with more honesty, the efficiency of labour would be increased. The labourer would make a better use of his tools and materials, and the labour of superintendence and watching

[1] Since this was written there has been a continuous and heavy fall in agricultural prices and a very general reduction of farm rents all over England, accompanied by a very considerable improvement in the condition of the agricultural labourer. Much is heard of agricultural distress: the farmer and the landowner have no doubt suffered severe losses; but the labourers are probably better off than they ever were before, and this must be set on the other side of the account when estimating the condition of agriculture as a whole. On the other hand, the smaller number of labourers required on farms has tended still further to swell the ranks of the unemployed in London and other large towns.

might be dispensed with; in this way wages might be increased, because more wealth would be produced; the cost of production at the same time would be diminished and the salary of the overlooker would be saved.

All the various schemes [1] which have been devised with the object of making the labourers benefit in the increased efficiency of their labour are based on this principle: viz. that when labourers are given a direct pecuniary interest in the efficiency of their labour, they will work with greater zeal, intelligence and economy, and will accordingly produce work of greater value; the extra value thus produced is afterwards divided, in shares previously agreed upon between the labourers and their employers. Some of the best-known and most successful profit-sharing businesses will be described in Chapter 4, Section III.

Local and temporary circumstances cause the Rate of Wages constantly to fluctuate. The above remarks indicate the general causes which regulate the wages of labour, but it must not be overlooked that local and temporary circumstances produce great fluctuations in the rate of wages. Just as the price of commodities continually varies on each side of the sum which is exactly sufficient to provide the current rate of wages and profits to their producers, so the price of particular kinds of labour constantly fluctuates above and below the general average, produced by the proportions between the demand for labour and the number of the labouring population.

Do High Prices produce High Wages? It is sometimes said that high prices produce high wages. The meaning of such an expression will be rightly understood only by those who know that no circumstance can produce a permanent effect upon the condition of the labouring population, if the ratio between the wages-fund and the number of the wages-receiving classes remains unchanged. Bearing this fact in mind, let us investigate some instances in which it is said that high prices produce high wages,

[1] The best English work on this subject is Mr. Sedley Taylor's book, *Profit Sharing* (Kegan Paul, 1884). See also Report to the Board of Trade on Profit Sharing, 1891 [C.—6267].

and that low prices produce low wages. There are many cases in which high prices produce no effect whatever upon wages. Prices of articles, the supply of which can be increased, depend upon cost of production. Cost of production consists of the following elements: labour, abstinence and risk. No one will incur either of these elements of cost without receiving as great a reward as he can obtain; the price of the article must therefore provide the current rate of wages and profits. If an increased amount of labour, abstinence and risk is required to produce the commodity, its price must be increased; or if any circumstance should enable its producers to secure a larger reward for their services, its price must also be increased. In the first case where we supposed that a greater exertion of labour, abstinence and risk was necessary to produce the commodity, its price would necessarily be increased without raising either the profits of capital or the wages of labour. The price of an article may also be increased by taxation, without any corresponding increase in the wages of labour. There are however some circumstances in which increased prices produce a temporary effect in raising wages. Suppose that there is a greatly increased demand for such a commodity as cotton cloth. For a time the equalisation between demand and supply will be effected by increasing the price of cotton goods. The new prices will perhaps provide the manufacturers with exceptionally large profits, and this circumstance will cause a largely increased supply of cotton goods. For this purpose the employment of new capital will be required; the manufacturers will perhaps erect new mills, and employ new capital in setting up machinery; to work this machinery an increased number of labourers will be required. This increased demand for labour will cause an increase in wages; here, then, is a case in which high prices have produced high wages. But these high prices and high wages are sure to attract the competition of other manufacturers and other labourers, who think that they would like to share these high profits and high wages. Production is therefore still further augmented in consequence of the competition of other capitalists; the supply

of labour is also largely increased owing to the competition of other labourers. The increase of the supply causes the price of cotton cloth to return to a point closely approximating to its former position; the price may even sink below what is necessary to provide the ordinary rate of wages and profits current in the trade before the rise took place. In either of these cases wages and profits must both decline in a degree corresponding with the fall in price. The manner in which the fall of wages is brought about may be described as follows:—Production is checked; manufacturers no longer realise exceptionally high profits; they may perhaps be making less than the ordinary rate of profit. Hence they will strive to reduce the supply; they will not extend their buildings, and they may probably keep their men on at half-time. In such a case what will be the effect on the wages of labour? We have supposed that the high wages which accompanied the original increased supply, attracted a large number of workmen, who were anxious to share the prosperity of the trade. Hence when trade is dull and manufacturers are desirous of reducing production, there is a largely increased number of workmen who are seeking employment. These circumstances will most undoubtedly produce a decline in wages. If the men resist such a decrease and refuse to work for lower wages, it might be to the manufacturer's interest, if his profits were less than the ordinary rate, to shut up his mills; and in this event thousands of workmen would be out of employment altogether. In thus illustrating the temporary nature of the effect of high prices upon wages, an extreme case has perhaps been taken. In all cases, however, where the competition between labourers is active, exceptionally high wages are sure to produce an additional supply of labour, which will, sooner or later, reduce wages to their former level. This is an illustration of the theory of supply and demand, as explained in a previous section. When the demand for labour is in excess of the supply, an equalisation between demand and supply is effected by an increase in the price of labour. The higher wages, however, attract an increased supply of labour, and the equalisation finally takes place at a lower

rate of wages. An illustration of the effect of high prices on wages may be taken from the great rise in the price of coal and the subsequent additions made to the wages of the miners in the years 1872–5. In this case the miners were able to obtain the maximum of advantage ; they were really masters of the situation because they possessed what almost amounted to a natural monopoly of the trade. Other labourers unused to the work could not be introduced to compete with them and run down wages ; as they possessed this advantage, they were able for some time to prevent the price of coal from going down by strictly limiting the supply, or, as it is called, the "output" of each man per week. Hence they made the most of their opportunities. In course of time, however, the higher wages of coal-miners attract the competition of young men from the surrounding agricultural and other industries, and the number of those seeking employment in the higher paid industry increases, while a corresponding decrease takes place in the lower paid employments. An equalising tendency is thus established, until the higher wages paid to miners are no more than just enough to compensate them for the extra risk and disagreeableness of their work.

Where competition is active the effect of a local depression of Trade upon Wages is only temporary. When wages are below the average and trade is dull, an influence is exerted by these very circumstances to restore wages and profits to their normal condition. Manufacturers will not go on producing commodities at a comparative loss, and intelligent workmen will not go on labouring at an occupation in which they receive lower wages than they could obtain elsewhere. The supply of capital and labour engaged in the depressed trade is accordingly reduced ; production is decreased, and the supply being diminished prices rise, and wages are restored to their former level.

Charitable assistance ought to be distributed in such a way as to facilitate the operation of economic laws, not to thwart them. It frequently happens that when an industry is much depressed, and the profits and wages realised in it are very small, there is temporarily great distress among

the workmen, numbers of whom are thrown out of work altogether. Where competition is active, and no efforts are made to check its operation, many of the workmen will, under such circumstances, find work in other employments, and frequently in other localities; the distress in this way is relieved without the agency of private charity or parochial assistance. In too many instances, however, workmen are encouraged, by the help they receive from the poor-rates and private charity, not to change their employment, but to remain in the locality where trade is depressed, and not to seek fresh employment elsewhere. The hand-loom weavers of Bethnal Green for many years carried on an unequal struggle with the power-loom, and many of them suffered extreme hardships through the great reduction which took place in their wage-earning power. The best way of helping these poor men would have been to endeavour to shew them that the change which had taken place in their industry was one that was likely to be permanent, and charitable assistance would have been wisely bestowed in enabling them to learn some fresh trade or migrate to some other locality.

In a similar way the most effectual way of helping the starving peasantry of Western Ireland is not by doling out to them just enough potatoes and meal to enable them to live on in their wretched bogs, but to connect the districts where they live with the railway system, so as to enable them to get a market for the fish and other commodities they are able to produce, and also to give them the means of carrying their labour to a more productive soil.

Free competition among labourers always tends to reduce exceptionally high wages, and to raise wages when they are exceptionally low. Competition, however, acts much more slowly in equalising the price of labour in different localities than in regulating the price of commodities. The difference between the price of corn, for instance, in London and in the most remote counties in England can never remain in excess of the cost of conveying the corn from the one place to the other. The price of labour is, however, not so readily influenced by competition. A labourer may be aware that

he will earn 2*s.* a week more by migrating to an adjoining county, but he has to consider whether he has the means of meeting the expense of removing himself, his family and his little stock of furniture. He may also be reluctant to forsake the place in which he has spent all his life, and to leave his old friends.

Competition was till lately almost inoperative among the Agricultural Labourers. Such feelings as these have until recently acted very powerfully with the agricultural labourers. Many of them were very simple ignorant people, who had never been beyond the limits of their own parishes. To them a place a hundred miles off was more unknown, and apparently more inaccessible, than Central Africa is to an ordinarily well-informed person. Hence competition, which must always act more slowly on the price of labour than on that of commodities, was almost inoperative in many agricultural districts. As previously explained, this state of things is gradually coming to an end. Cheap railways and the penny post have brought all the places in such a country as England close together, and agricultural labourers are beginning to move from places where wages are low to places where wages are higher, almost as freely as the ordinary artisan.

The strikes that have occurred among agricultural labourers in different parts of the country have, among other effects, caused a considerable amount of migration and emigration to take place. There can be little doubt that the movement for higher wages will gradually spread all over the country, and that migration and emigration will follow as the natural consequences of the peasant waking up to the fact that it is possible for him to better his condition.

Competition is still to a very large extent inoperative among women workers. Even more than agricultural labourers women have suffered as wage-earners from not taking advantage of the principle of competition. In some counties in England, especially in the cotton-weaving and spinning districts of Lancashire and Yorkshire, women's wages are as high as men's; whereas in East London and in other places we hear of women working for wages as low as 5*s.* or 8*s.* a week. Mr. Booth, who has made a special

study of the industrial condition of London, states that there is no uniformity in women's wages in the same trade even in places quite close to each other. This implies a want of organisation and a want of knowledge. If women had efficient trades' unions, knowledge of the conditions of the various trades employing women would be acquired, and labour would migrate from the worse paid to the better paid industries ; and equality of conditions in the same trade and in the same place would almost immediately follow.

Adam Smith's Five Causes which produce Differences of Wages in different employments. If competition acted freely among all classes of labourers, the inequalities of wages for the same work in different localities would cease to exist. There are, however, differences in wages in different employments which are permanent in their character. Adam Smith has thus enumerated the five causes which produce different rates of wages in various employments :—

1st, The agreeableness or disagreeableness of the employments themselves.

2nd, The easiness and cheapness, or the difficulty and expense, of learning them.

3rd, The constancy or inconstancy of employment in them.

4th, The small or great trust which must be reposed in those who exercise them.

5th, The probability or improbability of success in them.

To these must be added the limitation of competition among the higher and lower sections or groups into which labourers are divided, which practically limits the choice of a labourer, selecting his employment, to trades of about the same grade as that in which he was born. The son of an agricultural labourer, for instance, would in general be as powerless to choose the employment of a banker's clerk as he would be to select that of a prime minister or an archbishop.

Mining industry affords several examples of the manner in which the agreeableness or disagreeableness of an employment acts upon the wages of those engaged in it. The

miners who work underground receive much higher wages than those who are employed in the less dangerous and more agreeable occupation of breaking, sifting and washing the ore on the surface. No workmen would enter into an occupation which is exceptionally dangerous or injurious to the health, unless they were compensated for the risk they incur by an exceptionally high rate of wages. Those who labour in a coal mine receive, over and above the ordinary wages current in the district, a sum sufficient to induce them to risk their lives in a peculiarly dangerous occupation. Other things being equal, the more dangerous a mine is, the higher are the wages of those engaged in working it.

Under the head "agreeableness or disagreeableness of an employment" may be included those occupations which bring respect or contempt and dislike upon those who practise them. The payment given in exchange for the services of officers in the army and clergymen is, as a rule, extremely small. Many, however, enter the Church or the Army on account of the social position which members of these professions obtain. The dignity accruing to their position is a compensation for the small remuneration which they receive. On the other hand, those who practise a trade which brings upon its members contempt and dislike are compensated by a large amount of wages. No one would voluntarily undertake the duties of a hangman, for example, if he were not induced to do so by the hope of receiving exceptionally large wages. It is not an uncommon circumstance for a nobleman to give his cook a higher salary than his private secretary. This may be partly accounted for by the fact that a certain amount of contempt attaches to the office of a man-cook, whereas the employment of a secretary is considered to be quite compatible with the character and position of an educated gentleman.

It is also obvious that the higher salary earned by the cook is in great part due to the second of Adam Smith's causes. If wages in any employment are influenced by the easiness and cheapness, or the difficulty and expense of learning it, it is not unreasonable that the cook should have more wages than the secretary. Any moderately

well-educated person is capable of performing the duties of a secretary at a day's notice: whereas a really first-rate cook cannot perhaps be made in less than five years, and he will probably remain a student of culinary art all his life. Compare the work of a man like Soyer with the ordinary routine work of a secretary, and it is obvious that the capacity to perform the first is difficult and expensive to acquire, whilst it is the easiest and least expensive thing in the world for a man of ordinary education to acquire a complete knowledge of the second.

There are many industries which require a long apprenticeship before skill in them can be secured; and there are other industrial operations which can be almost as well performed by a novice as by a practised hand. These differences produce a corresponding difference in the rates of wages. A shipwright or a glass-blower has to spend many years in acquiring the skill which his trade requires. During the first half of a long apprenticeship, he earns nothing at all; considerable expense is therefore incurred by him in learning his trade. For this expense, and for the difficulties which have to be overcome in acquiring the necessary skill, he will in after-life be compensated by receiving a higher rate of wages than those workmen whose occupation entails neither difficulty nor expense. The trade of a crossing-sweeper, for instance, and that of a copying clerk are very easy and cheap to acquire. A broom is all that is required in the one case, and a knowledge of reading and writing in the other. Hence wages in such employments are much smaller than those earned by the skilled mechanic.

Difficulty of attainment is a most important element in determining wages in those employments where the requisite skill is acquired partly by long practice and is partly the result of natural endowments. The large remuneration received by first-class opera-singers, for example, is not due solely to the expense of acquiring their proficiency. An inferior singer may have taken quite as much pains to cultivate her voice, and may also have incurred as great an expense in obtaining her musical education. The reason why *prime donne* obtain such large sums is that they possess

what may be described as a natural monopoly. There is a very general demand for the best kind of vocal music, which few beside themselves can give. The same remark applies to some of the highest kinds of manual labour, such, for instance, as are required in the more delicate operations of watch-making.

The constancy or inconstancy of an employment produces an influence on the rate of wages prevailing in it. No one would enter an employment in which on an average he would only be able to work nine months in the year, if he were not compensated by receiving during these nine months an exceptionally high rate of wages. Some trades, such as malting, cannot be carried on in hot weather ; others, such as building, are stopped by frost ; dockyard labourers are liable to perpetual interruptions in their employment. Such workmen, therefore, as malsters, bricklayers, and dockyard labourers receive a higher rate of wages than they would be able to obtain if they were not liable to be frequently out of work.

The amount of trust which must be reposed in those engaged in a particular occupation exercises a very great influence upon the wages they receive. The more trustworthiness required the higher must be the wages given. It is essential that such persons as bankers, cashiers, jewellers' assistants, engine-drivers, railway guards, policemen and postmen should be men in whom a considerable amount of confidence can with safety be reposed. Men are not placed in these positions until they have shewn their employers that the uprightness and steadiness of their characters can be relied on. When they have proved themselves to be trustworthy they can justly claim a higher rate of wages as a compensation for the responsibility which their position entails.

In most trades the prospect of success is almost a certainty ; an agricultural labourer or a journeyman tailor cannot have many doubts as to the probability of his succeeding in the trade he has chosen. Such considerations as these apply more to the professions than to trades ; but there are some cases in which wages are influenced by the probability or

improbability of success. A man who is about to emigrate may well feel that there is considerable uncertainty whether he will succeed in the new life upon which he is about to enter. He may not know whether he will find work in the colony to which he proposes to go ; but he is certain that if he does get work he will receive higher wages than he could ever hope to earn at home.

It will be observed that most of Adam Smith's five causes of different rates of wages in different employments operate through the degree to which they limit the competition in various trades. For instance, the disagreeableness of an employment limits the numbers of those who engage in it ; if the disagreeableness is extreme, only a few persons will be willing to endure it however high the wages might be ; and these few may be regarded as, in a sense, the possessors of a natural monopoly. The hangman may be cited again as a case in point. Again, the difficulty and expense of acquiring a trade raises wages in it only so far as it limits the numbers of those who go into it. Thus the spread of education is likely still further to depress the wages of clerks ; because as long as those who could read and write were few in number, skill in this respect brought an increase of wages ; but this advantage will vanish when the power to read and write becomes universal. And so also with trustworthiness and sobriety ; as long as these qualities are exceptional they will bring higher wages to their owners ; if they should ever become universal, they will no longer command a monopoly price. These considerations are necessary to a complete understanding of Adam Smith's five causes of differences of wages in different employments ; for if it were universally true that the disagreeableness or the responsibility of an employment was always compensated by higher wages, the scavenger, the coal-miner, the stoker, the charwoman, and the maid-of-all work would earn higher wages than a Lord Chancellor or a *prima donna*. In calculating the effect of Adam Smith's five causes of different rates of wages in different employments, allowance must always be made for the degree in which they limit competition in the trades affected by them.

QUESTIONS ON CHAPTER II. *The Wages of Labour.*

1. What are wages? Is custom or competition the main regulator of wages?

2. How is the average rate of wages determined?

3. In what manner alone, therefore, can the condition of the labouring classes be improved?

4. By what means has the wages-fund, in such a country as this, been greatly increased?

5. Why has not the condition of the labourer improved in proportion to this increase of the wages-fund?

6. Describe the principal effect of the repeal of the corn laws upon the condition of the labourer.

7. What are the main features of Malthus' essay on population?

8. Into what classes does he divide the checks upon population?

9. As civilisation advances, which of these checks becomes the more powerful?

10. In what two ways does an increase of population deteriorate the condition of the labourer?

11. Why is emigration an insufficient remedy for over-population?

12. Describe the influence of the average rate of profit upon the wages-fund.

13. Are labourers ultimately benefited by an increase of wages which reduces their employers' profits below the average rate?

14. How does the increased efficiency of labour affect the wages-fund?

15. Is the price of labour subject to fluctuations?

16. Do high prices produce high wages? Give illustrations.

17. Describe the manner in which competition raises exceptionally low wages, and reduces exceptionally high wages.

18. Why does competition act much more slowly upon the wages of labour than upon the prices of commodities?

19. Indicate some of the limitations of competition as between different classes of labourers.

20. Has the condition of the agricultural labourers been improved by competition?

21. Would the wages of women be probably improved by greater freedom of competition?

22. Enumerate Adam Smith's five causes which produce different rates of wages in different employments.

23. Give examples of the effect of these five causes upon wages.

24. What is the controlling principle which lies at the root of Adam Smith's five causes of different rates of wages in different employments?

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1. Mrs. Browning makes Aurora Leigh say:

> "It takes a soul
> To move a body: it takes a high-souled man
> To move the masses even to a cleaner stye.
> . . . . . .
> . . . . . Your Fouriers failed
> Because not poets enough to understand
> That life develops from within."

Compare this with what political economy teaches as to the importance of "raising the standard of comfort," if an improvement in the condition of the labouring classes brought by increased wages is to be real and permanent.

2. Will the labourers in a depressed trade be more benefited by receiving charity or by being assisted to migrate to other localities where their labour is required?

3. Give any reasons which are suggested by the contents of the last chapter, why the salaries earned by governesses are in general so small compared with those which are earned by men engaged in teaching.

CHAPTER III. *On the Profits of Capital.*

Profit is the reward of Capital for the service it renders in the Production of Wealth. Capital was defined, in a previous section, as that part of wealth which

is set aside to assist future production. Capital is consequently the result of saving; but, in order to fulfil its functions, it must be either wholly or partially consumed. It is evident that the owners of wealth will not consent to its being appropriated to assist future production, unless they are rewarded by a share of the produce. This share is termed profits. It is thought by some, that it is an injustice that capital should receive any reward for its part in the production of wealth. Capitalists are by such persons denounced as selfish usurers, and the interest which their wealth returns to them is regarded as if it had been stolen from the public. M. Bastiat combated these notions (which at one time were very prevalent in France) in a series of little tracts, in which by a number of examples he shewed the real nature of the profits of capital, "proving that it is lawful, and explaining why it should be perpetual." The following is an abridgment of one of his examples. "There was once in a village a poor carpenter, who worked hard from morning to night. One day James thought to himself, 'With my hatchet, saw and hammer I can only make coarse furniture, and can only get the pay for such. If I had a plane I should please my customers more, and they would pay me more. Yes, I am resolved, I will make myself a plane.' At the end of ten days, James had in his possession an admirable plane, which he valued all the more for having made it himself. Whilst he was reckoning all the profits which he expected to derive from the use of it, he was interrupted by William, a carpenter in the neighbouring village. William, having admired the plane, was struck with the advantages which might be gained from it. He said to James:

'You must do me a service; lend me the plane for a year.' As might be expected James cried out, 'How can you think of such a thing, William? Well, if I do you this service, what will you do for me in return?'

W. Nothing. Don't you know that a loan ought to be gratuitous?

J. I know nothing of the sort; but I do know that if I were to lend you my plane for a year, it would be giving it

to you. To tell you the truth, that was not what I made it for.

W. Very well, then ; I ask you to do me a service ; what service do you ask me in return ?

J. First, then, in a year the plane will be done for. You must therefore give me another exactly like it.

W. That is perfectly just. I submit to these conditions. I think you must be satisfied with this and can require nothing further.

J. I think otherwise. I made the plane for myself and not for you. I expected to gain some advantage from it. I have made the plane for the purpose of improving my work and my condition ; if you merely return it to me in a year, it is you who will gain the profit of it during the whole of that time. I am not bound to do you such a service without receiving anything in return. Therefore, if you wish for my plane, besides the restoration already bargained for, you must give me a new plank as a compensation for the advantages of which I shall be deprived.

These terms were agreed to, but the singular part of it is, that at the end of the year, when the plane came into James's possession, he lent it again ; recovered it, and lent it a third and fourth time. It has passed into the hands of his son, who still lends it." Let us examine this little story. The plane is the symbol of all capital, and the plank is the symbol of all interest. If therefore the yielding of the plank by the borrower to the lender is a natural and equitable remuneration, we may conclude that it is natural and equitable that capital should produce interest. We may also conclude that interest is not injurious to the borrower. James and William are perfectly free as regards the transaction to which the plane gave rise. The fact of William consenting to borrow proves that he considers it an advantage to himself. He borrows because he gains by borrowing.

The Profits of Capital are composed of three elements. The interest on capital, namely, the sum which a borrower gives to the lender for the consideration of a loan, forms only a part of the Profits of Capital. The Profits of Capital are

composed of three elements: interest on capital, compensation for risk, and wages of superintendence. The interest on capital, at any particular time and in any country, can be ascertained by the interest yielded, at the same time and in the same country, by those securities which involve no risk and no labour of superintendence. In this country, Government stock affords such a security. Those who invest money in the Funds are with reason confident that they run no risk of losing it, and the possession of stock does not involve any labour. The owners of Government stock receive about $2\frac{3}{4}$ per cent. interest on their capital, and therefore $2\frac{3}{4}$ per cent. is the current rate of interest at the present time (1904) in this country. If more than this is now given in this country for a loan, it is because the lender has not complete confidence in the ability of the borrower to pay; and therefore compensation for risk increases the sum which is given for the loan. If the profits of capital were no greater than the interest on capital, no one would take the trouble or incur the risk of entering into business. If the employment of money in trade yielded only a profit of $2\frac{3}{4}$ per cent., merchants and shopkeepers would withdraw their capital from business and buy Government securities. The profits of capital are greatest in those pursuits in which the greatest risk is incurred and where the labour of superintendence is most costly; the variableness of these two elements produces great variations in the rate of profit in different trades. A butcher, for instance, realises larger profits than a draper because his labour of superintendence is more disagreeable, and he also incurs greater risk, for in this climate a thunderstorm or a sudden alteration from cool weather to intense heat is often sufficient to destroy his whole stock of meat.

In uncivilised countries, the insecurity of property causes compensation for risk to form a very large proportion of the profits of capital. Speaking of the state of society in some parts of Asia, Mr. Mill says, "Those who lend, under these wretched Governments, do so at the utmost peril of never being paid. In most of the native states of India, the lowest terms on which any one will lend money, even to the Government, are such that if the interest is paid only for a few years,

and the principal not at all, the lender is tolerably well indemnified." It is notorious that a spendthrift who has run through all his own property, can raise money only by promising an enormously high rate of interest. The money-lenders exact from him 60 or 70 per cent. as interest, for they know that there is a very great chance that they will never be paid at all. If they are paid, their profits are sufficiently large to compensate them for their frequent losses. There was a case in the papers a short time since of a Cambridge undergraduate who borrowed money at the rate of 75 per cent. The father of the young man refused to pay the debt because his son was not of age when it was contracted, and the law upheld him in his refusal. But the money-lender can well afford occasionally to lose both principal and interest, because it appears that he is able to find a considerable number of young men foolish enough to accept loans from him on the exorbitant terms just quoted. The profits of the money-lender are increased not merely by his risk of loss, but by the dishonourable character of his business, which protects him from the competition of honest men, and from that of men who, whether they are honest or the reverse, desire the good opinion and esteem of their neighbours.

The Rate of Interest is the same in all trades in the same country and at the same time. If compensation for risk and for dishonourable reputation, together with the wages of superintendence, are eliminated from profits, the interest on capital alone remaining, the amount of this interest will remain constant in all trades at the same time and in the same country. The interest on the capital of the farmer, the grocer and the manufacturer inevitably tends to an equality, at the same time and in the same place; the differences in the *profits* of these individuals are caused by the differences in the risk and reputation which they incur and in the wages which they receive for superintendence. It is not therefore true that profits in different trades tend to an equality; for the risk in some occupations is permanently greater than in others, and this risk must receive compensation; some trades also require more superintendence than others; and the wages paid for particular

kinds of labour vary in the manner described in the previous chapter. There must therefore always be natural and permanent differences in the rate of profit in different employments. The interest on capital alone remains constant in various trades at the same time and in the same country.

An explanation of the causes which produce a decline in the Rate of Interest as Wealth and Population increase. An inquiry may now be made into the causes which produce a decline in the rate of interest, as wealth and population increase. This leads to a very interesting example of Ricardo's theory of Rent. The amount of the reward given to labour and capital must ultimately depend on their efficiency. That is to say, any circumstance which causes the same amount of labour and capital to produce more wealth must, if other things remain unchanged, produce a corresponding increase in wages and interest. On the other hand, any circumstance which causes a given quantity of labour and capital to produce less wealth diminishes the amount distributed as wages and interest. If while a man is consuming a sack of wheat he can produce a sack and a half, the reward for his labour and capital is at the rate of 50 per cent. But if he has to move away to less fertile land, so that he only produces a sack and a quarter of wheat while he consumes a sack, his wages and profits are reduced to 25 per cent. As the margin of cultivation descends, that is to say, as land of less and less fertility has to be cultivated to supply the needs of the population, wages and profits tend to decline, and rents to increase; because rent is the excess in productiveness of any particular land over the worst land in cultivation that pays no rent. Ricardo's theory shews that, as population increases,[1] the augmented demand for food causes a resort to less fertile or less conveniently situated soils. The required food is therefore

[1] It has been explained in a previous chapter how the reduction of cost of carriage has counteracted this tendency in recent times; the larger needs of an increased population being met, not by resort to less productive soils, but by resort to more fertile regions which were formerly out of the range of European markets.

produced at a greater proportionate expenditure of capital and labour; in other words, a given amount of labour and capital is less productive of wealth, and wages and interest consequently decline.

The Law of Diminishing Productiveness. A similar effect is produced if the additional food required has to be raised upon land already in cultivation. When agriculture has advanced to a certain stage, in the absence of any special discoveries, doubling the capital and labour applied to any particular land does not double the produce; "or, to express the same thing in other words, every increase of produce is obtained by a more than proportional increase in the application of labour to the land." (J. S. Mill, *Principles of Pol. E.*, Vol. I, p. 217.) Every successive *dose* of capital applied to the land yields a less and less return. If it were otherwise, if every *dose* of capital yielded a proportional return, the whole economic condition of the world would be changed. A single farm might raise produce sufficient for a whole nation; and the only limit to the increase of population would be that of finding standing-room.

The law of diminishing productiveness shews why profits and wages tend to decline, and why they are much higher in a new than in an old country.

The following illustration will suffice to prove that, in fact, this is the case. In England wages and interest are lower than they are in Australia. In England the margin of cultivation is low: soils are here cultivated, with the greatest care, which would not be used at all in Australia. The same amount of capital and labour, expended in agriculture, is much more productive of wealth in Australia than in England; hence the reward of labour and capital is greater in the former country than in the latter. From these facts it is proved that profits do not depend upon the wages of labour, but upon the efficiency of labour; that is to say, upon the proportion which the amount of wages paid bears to the productiveness of labour. In Australia wages are higher than in England, but the cost of labour is less because labour is more productive in Australia than in England. That this is true is proved by the fact that profits

are greater in Australia than in England, and the rate of interest is also higher.

High Prices do not denote Large Profits. Nothing can be more erroneous than to suppose that high prices invariably denote large profits. It is true that a sudden demand for a commodity sometimes causes its price to be temporarily raised beyond what is sufficient to return the ordinary rate of profits and wages to its producers. But, as frequently explained, the competition of capital and labour causes these high wages and profits to be reduced; prices being permanently regulated, where free competition prevails, by cost of production. In the previous chapter it was explained that high prices do not produce high wages; the same reasoning applies to the case now before us. Take as an example the price of cotton goods. The cost of production consists of the following elements:—labour, abstinence and risk; the cost of an article may also be increased by taxation. An increase in any of these elements will increase the cost of production, and consequently tend to raise the price of commodities. For instance, the labour necessary to the production of the cotton may be greatly increased, owing to the sudden failure of the ordinary sources of supply; or increased taxation may be imposed on the raw material or on the manufactured cotton; in either of these cases prices will be augmented without causing any increase in the profits of capital; in fact the increased cost of all the other elements of cost of production would actually tend to diminish the profits of capital; and therefore higher prices would be accompanied by a decline in the rate of profit. At the time of the American war, the difficulty and expense of obtaining raw cotton very greatly increased the price of cotton goods; at the same time manufacturers were sustaining heavy losses, and wages were so much reduced that the memorable cotton famine ensued. That high prices do not make high profits is shewn by the simple consideration that the rate of profit represents a proportion, and that a proportion cannot be determined by one factor simply, but depends on the relation in which this stands to the other. The rate of interest in fact depends on the costliness of the

other elements of cost of production, and as by far the most important of these elements is labour, it is sufficiently accurate to say, as stated above, that the rate of interest depends on the cost of labour. It has frequently been stated that both profits and wages must ultimately be contained in the price realised by the article produced by the joint exertion of capital and labour. Hence it is seen that the greater the proportion of this price which has to be conceded to labour, in the form of wages, the less remains to be enjoyed by the capitalist, as profits. Cost of Labour *to the Capitalist*, therefore, depends on the proportion of the value of the product, due to the joint exertions of capital and labour, which is secured as the reward of labour.

On what does the Cost of Labour depend? It is now therefore desirable to ascertain accurately on what the cost of labour to the capitalist depends. Mr. Mill has described the cost of labour as a "function of three variables." That is to say, the cost of labour to the capitalist is influenced by three circumstances, each of which is liable to variations.

These circumstances are—

1. "The efficiency of labour.

2. The wages of labour (meaning thereby the real reward of the labourer).

3. The greater or less cost at which the articles composing that real reward can be produced or purchased."

If the efficiency of labour is increased while the wages of labour and the cost of the necessaries of life are unaltered, the cost of labour to the capitalist is diminished. If the wages of labour are increased, without a corresponding increase in the efficiency of labour, the cost of labour to the capitalist is increased.

If the articles composing the real reward of the labourer become less costly, without his obtaining more of them, wages decline, and the cost of labour to the capitalist is diminished.

The rate of profit depends upon the share of the total produce resulting from a given exertion of labour and abstinence which is allotted to labour; and it will be found on consideration that any variations in the general rate of

profit must be produced by variations in one or more of the three circumstances above enumerated.

An Example. In such a country as Australia the efficiency of labour is very great, owing to the large extent of fertile land; and the cost at which the necessaries of life can be obtained is for the same reason very small. These circumstances are sufficient to produce a high rate of profit, together with a high rate of wages.

Workmen are not ultimately benefited by a rise in wages which causes their employers' profits to sink below the ordinary rate. In explaining the relation between wages and profits in the last chapter, it was said that the labourers in any particular employment derive no permanent benefit from a rise in wages which reduces their employers' profits below the ordinary rate. But it may be urged that if all the working-men in such a nation as Great Britain combined in their demand for higher wages, they would be able to obtain a larger share of the wealth produced by capital and labour, and the current rate of profit prevailing in this country would be reduced. Laying aside the innumerable obstacles to such perfect organisation and unanimity amongst all classes of workmen which such a demand would require, let it be supposed that a universal demand for higher wages takes place throughout the United Kingdom, that the demand is conceded, that profits are decreased, and that the rate of interest is reduced from $2\frac{1}{2}$ to $1\frac{1}{2}$ per cent. Such a reduction would tend in two ways to reduce capital and ultimately wages. The higher the rate of interest the greater is the inducement to save. A fall in the rate of interest from $2\frac{1}{2}$ to $1\frac{1}{2}$ per cent. would cause many persons to expend their wealth in their own enjoyments rather than employ it productively as capital. A reward of £1 10*s.* a year for every £100 which they abstain from spending would not be sufficient in a great many instances to induce persons to save. Hence, the supply of capital would be checked. On the other hand, there are many persons who would say, "We cannot live on the income yielded by $1\frac{1}{2}$ per cent. on our capital; as we cannot get more than this here we will invest in some foreign

enterprise, in an Indian tea-garden, an American railway, or a Peruvian mine." A large amount of capital is consequently exported, whilst at the same time the accumulation of capital is checked by decreasing the inducement to save. Such circumstances would gradually produce a very great diminution in the capital of the country. Circulating capital always bears some proportion to the gross amount of capital. As previously explained in Section I, Capital is divided into Fixed Capital and Circulating Capital. If, therefore, the capital of a country is diminished, both these portions of it will in all probability be reduced. The principal employment of circulating capital is the maintenance of labourers; that is, paying the wages of labour. A decrease in the amount of circulating capital will therefore inevitably produce a decrease in the wages of labour. Hence, it is seen that any circumstance which materially reduces the rate of interest in a country checks the accumulation of capital, and leads to the export of capital. The capital of the country is thereby reduced, circulating capital is diminished, and wages fall.

If the rate of interest is unduly decreased by the demand of labourers for higher wages, the sufferings of the working-classes when the consequent reduction of circulating capital takes place will probably be very acute. The increased wages which for a time they were able to secure would have stimulated a considerable increase of population. When, therefore, the reduction of wages takes place, the labourers find that their numbers have increased, and that their means of subsistence are diminished. Misfortune comes upon them like a two-edged sword that cuts both ways. The labouring population of the East End of London was a few years since suffering under this double calamity. The expenses which a working-man necessarily incurs are much larger in London than in most places; house-rent and fuel are dear, and the rates are extremely high; the wages of labourers are therefore necessarily higher in London than in such a place as Glasgow. The consequence of this has been that one of the principal trades of the East End of London, shipbuilding, was for a time carried on by

capitalists at a comparative loss ; it has consequently been gradually removed from London to such ports as Glasgow, where labour and the requisite materials can be obtained cheaper than in London. During the time in which high wages were being realised by the London workmen a large increase of population was stimulated, and the miseries produced by the subsequent stagnation of trade were thus greatly aggravated.

The Export of Capital widens the area of Competition. The principal effect of the export of capital upon profits is that it widens the area of competition. It has been said that when the profits realised in a particular trade are exceptionally high, the competition of other capitalists gradually reduces profits to the ordinary rate. If this is true between one trade and another in the same country, it is also true, though in a more limited degree, between one country and another. Competition is not so active between different countries, because in many cases the export of capital would be attended by great loss and inconvenience. A shopkeeper in London may find his expenses so heavy that, when he has deducted wages for superintendence and compensation for risk, his capital only returns him an interest of 2 per cent. He may at the same time be well aware that the interest on capital in Australia is 10 per cent., and yet there may be insuperable obstacles to prevent him from entering into business in Australia. The difficulty of obtaining authentic information respecting the best way of investing his money in that country, the distance which he would have to travel, the expense he would incur if he determined upon emigrating, and many other considerations, would very probably be sufficient to deter him from leaving his own country or investing in foreign enterprises. The obstacles which have hitherto to a large extent prevented the export of capital are gradually becoming less powerful. As intelligence is more widely diffused, and the means of locomotion and communication are improved, the export of capital has steadily increased. In many parts of the Continent there are a great number of manufactures which are carried on by

Englishmen with English capital. A large firm of stocking manufacturers at Nottingham have a branch of their business established in Saxony. If by a strike their workmen in England should succeed in getting such wages as to reduce the profits of the Nottingham trade below those realised in Saxony, the heads of the firm would no doubt take every opportunity of reducing the Nottingham business and increasing the manufacture of stockings in Saxony. In other words, there would be an export of fixed and circulating capital from England to Saxony. Such a phenomenon as a manufacturer carrying on his business in a foreign country was almost unknown a century ago, but it will in all probability become more and more common until the rate of profit realised in different countries is more nearly similar than it now is.

The three great divisions into which wealth is divided have now been investigated; this section cannot, however, be brought to a close without explaining the effect of trades' unions, strikes and co-operation upon wages and profits. This explanation will form the subject of the following chapter.

Questions on Chapter III. *The Profits of Capital.*

1. What is the real nature of the profits of capital?
2. Shew by an example that profits are just and should be perpetual.
3. Of what three elements are the profits of capital composed?
4. What is the interest on capital, and how can the rate of interest in any country at any particular time be ascertained?
5. Why does the rate of profit vary in different trades?
6. Explain the effect of insecurity of property upon profits.
7. Is the rate of interest variable in the same country and at the same time?
8. Why does the rate of interest decline as population increases?

9. Give an illustration shewing that the rate of interest declines as the margin of cultivation descends.

10. It is sometimes said that profits depend on the rate of wages; explain why this is inaccurate, and state on what profits really depend.

11. Do high prices necessarily denote large profits?

12. Give an example shewing that higher prices are sometimes accompanied by a decline in the rate of profit.

13. On what three variables does the cost of labour to the capitalist depend?

14. In what two ways does a reduction of the rate of interest in any particular country tend to decrease the national capital?

15. Explain the effect of such a decrease on the condition of the labouring classes.

16. What therefore is the effect of the export of capital upon profits?

17. Why does competition act more slowly between different countries than between different trades in the same country?

18. Why is the export of capital likely to increase?

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1. How can the fact be accounted for that the profits of a speculator on the Stock Exchange are larger than the profits of farming?

2. Is usury wicked? Were the laws regulating the rate of interest any good?

3. What effect has the export of English capital on the rate of profit in England?

4. Suppose the whole labouring population of the world by a combination succeeded in obtaining wages so large that capital was deprived of any share of the wealth it assisted to produce; what effect would this have on production, and on the welfare of the entire community?

5. Shew that a high rate of profit sometimes indicates that a country is in a satisfactory condition, and sometimes the reverse. Illustrate this by the United States and Mexico.

CHAPTER IV. *On Trades' Unions, Strikes and Co-operative Societies.*

The Functions of a Trade's Union explained. A Trade's Union is a society formed by the workmen engaged in any particular trade; this society generally fulfils the double purpose of a benefit club and an organisation for protecting the interests of the workmen by obtaining for them such advantages as higher wages, shorter hours of labour, etc. The utility of trades' unions as benefit clubs is undeniable. Each member of a trade's union is compelled by the rules of his society to contribute a certain weekly sum to its funds. In the case of illness or loss of work he obtains assistance from these funds, and in the case of his death his family receives a certain sum of money from the same source. In point of fact a trade's union is an assurance company. The assistance which trades' unions render to workmen is so considerable, that no members of such unions as the Amalgamated Carpenters and Joiners', or the Amalgamated Engineers',[1] are ever known to be in receipt of parish relief.

The other function of a trade's union, namely, that of protecting the interest of workmen by obtaining for them the highest possible rate of wages, is that by which unionism is best known, and it is this which has made it so extremely unpopular with the capitalist classes. For though unions are not necessarily connected with strikes, a strike could not

[1] To give an idea of the importance and prosperity of some of these societies, the following figures may be quoted from Mr. Frederic Harrison's address at the Trades' Union Congress in September 1883. The engineers' union in 1867 had 33,325 members, in 1882 they had 50,000 and an income of £124,000 a year. The boiler-makers in 1867 were 6405; in 1882 they were 27,408 and their income was £67,000 a year. The iron-founders in 1882 were 11,400 with an income of £42,000 a year. In the six years beginning with 1876, a period of great stagnation of trade, seven of the leading trades' unions spent in allowances to members out of work nearly £2,000,000 sterling, and of this only £162,000, or less than 9 per cent., was spent in trade disputes. Mr. Harrison reckoned that unions usually spend only about 1 or 2 per cent. of their available resources in strikes.

be successfully carried on without some such organisation as a trade's union supplies.

Strikes. Notwithstanding the loss which workmen and employers have frequently suffered in consequence of strikes, few would now assert that workmen have not the right to join an association for the protection of what they believe to be their interests. Let us inquire what a strike really is. It is neither more nor less than a refusal on the part of workmen to sell their labour on the terms offered by those who desire to buy it. No one thinks a corn merchant or any other trader is culpable if he refuses to sell his goods at the price offered by his customers. If it be justifiable for a merchant to refuse the terms offered by those who wish to buy his commodities, it cannot be wrong for a workman to do the same ; and if it be right for one man to refuse to work on the terms offered by his employer, it cannot be wrong for ten, a hundred, or a thousand men to do the same. The conduct of workmen in striking for higher wages, or to resist a reduction, may be either prudent or imprudent, but it can never deserve censure as morally wrong. "Every one has a right to do all that he wills, provided he infringes not the equal freedom of any other person." If this moral law had always been observed by trades' unionists they would have deprived their enemies of all semblance of an argument against the right of combination. This law is constantly violated by all classes of the community, and workmen have not herein shewn themselves superior to the rest of humanity. In times past, and especially while the Legislature was engaged in a foolish and unjust endeavour to suppress trades' unionism by law, the men were frequently guilty of using force and violence to compel those workmen to join their societies who would otherwise have been unwilling to become members of trades' unions. Constant annoyances, bodily violence, and even murder, were weapons which trades' unionists at one time employed in order to prevent the competition of non-unionist workmen and workwomen. Such conduct deserved and received the strongest censure ; but the fact that acts of violence were occasionally committed by unionists does not affect the right of freedom of

combination, which is all that rational upholders of trades' unions contend for. The fact that some men abused the power which this right confers affords no reason why all should be deprived of it. It should be an encouragement to those who try to get rid of unjust class legislation, that since trade unionism has become legal, acts of violence on the part of unionists perpetrated with the object of promoting the supposed interests of their union have become rarer. *Rattening*, which means hiding or destroying the tools of non-unionist workmen, is now very little practised.

One very important use of a trade's union is that it tends to place the workmen who are making a bargain with regard to wages in a position of equality with the capitalist. Workmen usually have no private store of savings which would enable them to live for more than a few days without work; an isolated workman, unsupported by a union, is therefore in a very disadvantageous position in case of a dispute with his employer with regard to wages. The loss of work to the workman in this position means starvation or the workhouse: the loss of labour to the employer means simply a pecuniary loss. One man stakes his life or his liberty and the other his purse. Trades' unions do much to remedy this inequality; for when a strike is agreed upon they supply their members with the means of subsistence while the strike lasts. This function of trades' unions and benefit clubs, aided as well by poor law relief, is probably the principal reason why commercial depression, stagnation of trade and consequent difficulty in obtaining work do not in this country, as in France, lead to political disturbances. In England the agencies above referred to protect the working-classes from the fear of starvation, which is nearly always found to be the motive power of dangerous popular tumults.

In consequence of their connection with strikes, trades' unions have attracted more notice than other associations for mutual aid which have long existed among the working-classes. But Returns published by the chief Registrar of Friendly Societies shew that trades' unionism is only one among many of the means which the working-classes have devised for the promotion of thrift and for mutual protection

against adversity. For instance, the members of Building Societies were, in 1887, almost twice as numerous as the members of Trades' Unions; and if the members of Trades' Unions, Industrial and Provident Societies and Building Societies are added together, the Trades' Unionists are found to form rather less than a fifth of the whole.[1]

Some of the means employed by Unionists to obtain High Wages explained. It has been said that the object of a trade's union is to obtain for its members the highest possible rate of wages. Although trades' unionists are often accused of setting at defiance every principle of political economy, they are good enough economists to know that the rate of wages depends on the proportion between the sum paid as wages and the number of those between whom this sum is distributed. It is true that they do not generally apply this important principle to the whole of the wages-receiving class, but they do, as unionists, apply it to the particular trade in which they happen to be employed. Many of the rules of trades' unions are, therefore, designed

[1] The returns of Industrial and Provident (Co-operative) Societies, making returns to the Registrars of Friendly Societies, shew the following increase between 1887, 1893 and 1901. The figures are—

ENGLAND AND WALES.

	1887	1893	1901
No. of societies making returns	950	1,333	1,382
No. of members ...	755,611	1,057,866	1,541,920
Total capital	£10,180,726	£14,777,089	£21,134,653

SCOTLAND.

No. of societies making returns	320	346	316
No. of members ...	139,293	204,826	300,658
Total capital	£1,627,589	£3,237,106	£3,495,049

IRELAND.

No. of societies making returns	7	39	163
No. of members ...	587	3,338	23,280
Total capital	£2,726	£26,856	£75,446

with the purpose of reducing or restricting the number of workmen employed in the trade or of preventing the employment of women in it. For instance, no shipwright can become a member of a union who has not served a seven years' apprenticeship ; and no employer can engage a shipwright who cannot produce the indentures of his apprenticeship, because, if he did so, all the unionist workmen in his employment would strike. Again, in the hat trade, no master workman may have more than two apprentices at the same time. A practical restriction is also placed upon the number of bricklayers, because no master mason (as the first-class workman is called) will do any work whatever, unless a labourer is also employed to work under him.

A comparison of the restrictive Rules of Trades' Unions with the Etiquette of the Learned Professions. It is curious to observe that the rules of trades' unions just quoted have a remarkably exact parallel in the rules prevailing in the learned professions of medicine and the law. No shipwright will work in the same yard with a man who cannot produce the indentures of his apprenticeship. No doctor will meet in consultation one who has not received the degree of some recognised licensing body. Until 1878 all the licensing bodies in England refused to admit women to their degrees, and the competition in the medical profession was by this means restricted. The admission of women to the medical and other degrees of the London University was at last carried in spite of the opposition of the great majority of medical graduates of the University. In a similar way there have frequently been strikes against the admittance of women into certain trades, such as china-painting, carpet-weaving, etc. ; the object being to limit the competition for employment in the trade.[1] No hatter may have more than two apprentices at the same time. No solicitor may have more than two pupils in his office at the same time. No master mason will work without an inferior

[1] In February 1884 a strike was commenced by the weavers' union at Kidderminster, because one of the carpet manufacturers there was employing women to weave velvet and plush used in upholstery at looms formerly occupied by men.

under him. No King's Counsel will go into court without a junior barrister with him. This curious resemblance is not quoted in defence of the restrictive rules of trades' unions, but merely to shew that the learned and the unlearned have resorted to the same means for protecting the interests of their own profession or trade. No doubt both believe that these restrictions are good for themselves in particular and for the community in general. But if the restrictions are unjustifiable in the one instance, they must be so in the other.

There are Combinations amongst Employers as well as amongst Workmen. There are trades' unions in a great many businesses and professions which are called by other names. Some of the opponents of unionism overlook the fact that combinations are formed by the employers as well as by the employed. The iron masters, for instance, have their quarterly meetings at which they agree upon the wages to be offered for particular sorts of work during the ensuing three months. When they resolve upon a reduction of wages, they agree that the alteration shall be simultaneous throughout the whole district; just as workmen, in any trade, agree to strike work on a particular day, when they are contending for higher wages.

Trade Combinations imply hostility: while this remains strikes and lock-outs will continue to occur. The combinations existing among employers are justifiable on exactly the same grounds as the combinations of workmen. The hostility which such combinations imply may be deplorable; it certainly leads to much misery and pecuniary loss; but while the hostility remains no good can be done by attacking the right of combination. Trades' unions and associations of employers would not exist in their present form, unless there were an antagonism of interest between workmen and their employers. Those, therefore, who most deplore the frequency of strikes, and the misery and heart-burnings they produce, should endeavour to remove the antagonism of interest between employers and employed, of which strikes and lock-outs are only the outward and visible signs. A "lock-out" is really a strike of the masters. The

men make some demand for shorter hours or for higher wages, which the employers refuse to grant. The men persisting in their demand, the employers throughout the district discharge all their workmen. Their gates are closed; and production is entirely suspended, until one or other of the parties gives way, or until some compromise is agreed to by both.

Boards of Conciliation and Arbitration. In many trades boards of conciliation and arbitration exist for the object of settling disputes which may arise between employers and employed; and since 1890 Chambers of Commerce have taken an active part in the creation of these boards. The coal-miners of Durham have had a board of conciliation in existence since 1873 on which employers and employed are represented in equal numbers. The County Court Judge of Durham is the chairman and has the casting vote. The board has frequently had a most beneficial influence in settling trade disputes. The boards of conciliation and arbitration have no power to enforce their awards; but it is generally admitted that the conditions agreed upon are loyally observed on both sides. Nothing can be more beneficial than the operation of these boards when once a dispute has arisen; and by promoting friendly intercourse between employers and employed they have some influence in preventing disputes; but it must be borne in mind that they deal with the symptom—the strike, and not with its cause—the antagonism of interest. They cannot therefore be regarded as complete and efficient remedies for strikes.

Questions on Chapter IV. *Trades' Unions, and Strikes.*

1. What is a trade's union?

2. What two functions does a trade's union usually fulfil?

3. Why are trades' unions unpopular with the capitalist classes?

4. What is the connection between trades' unions and strikes?

5. What is a strike?

6. Can it be shewn that men have no right to strike?

7. What are the main advantages of trades' unions to their members?

8. Explain some of the rules by means of which trades' unionists have endeavoured to raise the wages given in their own employments.

9. Describe the similarity between the rules of trades' unions and the etiquette of the medical and legal professions.

10. Give an instance of the combination of employers, and shew that their right to combine for the protection of their interests is as incontestable as that of their employés.

11. What is the real cause of strikes and lock-outs?

12. How can this cause be removed?

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1. Write an exercise describing the advantages which workmen obtain from combination, and point out that in driving a bargain with their employer it is only by means of combination that they can place themselves in a position fully to protect their own interests.

2. If you were a member of a trade's union, and a strike were resolved upon, would you advise that the strike should be commenced when trade was active or when it was dull?

CHAPTER V. *Co-operation and Co-partnership.*

Co-operation, Co-partnership and Profit-sharing. Many schemes have been propounded, with the view of removing the antagonism between capital and labour, by making employers and employed feel that their interests are in the main identical. The fundamental principle of all these schemes is that workmen should have a direct pecuniary interest in the prosperity of the trade in which they are engaged; this interest may be created by the workmen owning the whole or some part of the capital which their industry requires. When the whole of the capital an industry requires is furnished by the workmen engaged in

it, an instance is afforded of pure co-operation, and antagonism between capital and labour is of course annihilated. When workmen own only part of the capital, they enter into partnership with their employers, and the scheme is accordingly known as co-partnership. Identity of interest between capital and labour may also be created by the plan which is known as profit-sharing, according to which, without requiring the labourer to become a capitalist, it is agreed between masters and men that when the profits of the business in which they are jointly concerned exceed a certain sum, say 10 per cent., these extra profits shall be divided between capital and labour in fixed proportions. It is the essential characteristic of profit-sharing that by stimulating conscientious work and economical use of tools and materials, it creates the extra profit which is afterwards divided. Mr. Sedley Taylor has thus expressed this principle in his book on Profit-Sharing previously referred to (see p. 130): "It is most important to bear in mind when profit-sharing is being discussed, that the system, far from being a scheme for enriching workmen out of the pockets of their employers, has at its command potential energies capable of opening an entirely new source of profits, and so creating the fund which it proposes to distribute."[1]

Trades' unionists often oppose co-operation. The fundamental idea of co-operation is in direct antagonism to that of trades' unionism. Trades' unions imply a condition of war between capital and labour, and exist for the purpose of enabling labour to hold its own against capital. But co-operation in its various forms aims at bringing about a condition of peace; it seeks to remove the antagonism between capital and labour and to make their interests identical. Trades' unionists have accordingly often been among the keenest opponents of co-operation. An example of this will presently be given in the account of the resistance by the

[1] *Profit-Sharing*, p. 63, by Sedley Taylor, M.A., Trin. Coll. Camb. The Report to the Board of Trade on Profit-Sharing, 1891 [C.—6267], price 4½*d.*, gives a clear account of various systems of Profit-sharing, and a list of firms in England, France and the United States which had adopted it.

Gas-Workers' Union to the adoption of profit-sharing in the South Metropolitan Gas Works in 1889. It may also be mentioned as an additional example that there are several co-operative boot and shoe manufactories in the neighbourhood of Leicester and Northampton, and during a strike in 1895, which affected the whole of the rest of the trade, the co-operative societies went on working without interruption; this fact was somewhat bitterly commented on by the organs of trade unionism, as if it afforded proof that the co-operators were disloyal to the class to which they belonged. The antagonism of trades' unionism to co-operation is one of the difficulties with which the latter has to contend in England.

Co-partnership in France. Many most successful examples of co-operation, co-partnership and profit-sharing have been given in France, where experiments in industrial reorganisation seem to flourish more than they do in this country. In 1876 the proprietor of the well-known Paris shop, the *Bon Marché*, in the Rue du Bac, adopted in his business, employing more than 3000 persons, a combination of the principles of profit-sharing and co-partnership. This experiment has been entirely successful, and has led to the conversion of the business into a limited liability company, of which the capital is £800,000. Of this sum £300,000 is held by the employés and £500,000 by the widow of the original proprietor.

Among successful experiments in profit-sharing mention should be made of the institutions founded by the late M. Godin, an iron-founder at Guise. He not only introduced the principle of profit-sharing, giving to each workman a share of profits proportionate to the value of his work, but his main idea was to elevate the whole condition of the employés. He had begun life himself as a workman, and from eleven years old till early manhood he had toiled from five in the morning till eight at night. In his own account of his life he wrote: "I said to myself, 'if ever I lift myself above the condition of the workman, I will seek means to render his life happier and to lift labour from its degradation.'" His whole life was devoted to carrying this idea into practice.

He gathered those who worked for him into a group of buildings which he called a *Familistère*. M. Godin employed more than 1200 workmen ; and 550 with their families lived in the *Familistère*. Each family had its own set of rooms and enjoyed as much privacy as it desired ; the rent was extremely moderate, equal to 8*s*. a month for two rooms. Beside the private apartments of each family, there are, for the common use and enjoyment of all, schools, nurseries, a theatre, co-operative stores, a library, a reading-room, a café and gardens. M. Godin lived in the *Familistère* himself, and no detail of management was too minute for his attention. He invented an improved cradle for the babies ; and as his original business was not of a nature to give employment to women, he set up a stocking factory, where the wives and daughters of his workmen could earn their living. Among other advantages enjoyed by the employés, medical attendance in their own homes was provided for them, a liberal allowance was made for sick pay during illness and for pensions during old age. In 1880 M. Godin sold his business to his Associated workmen for £180,000. They paid him 5 per cent. on this, or £9000 a year, besides £600 for managing the concern. The profits of the business after paying this and all other charges were formed into a sinking fund, with the object of paying off the debt of £180,000 to M. Godin, when the business became the entire property of the workmen. M. Godin died in 1888 and left all that part of his property which the French law gave him power to dispose of, to the Society of the *Familistère*. He described the principle which animated his life's work in the following words : "To respect, protect, develop all human life over all the world, by the worship of work and of peace and by the love of humanity."[1]

The best known and in many respects the most perfect example of the good results of profit-sharing is afforded by the Maison Leclaire, a house decorating firm in Paris. This society was founded by M. Leclaire, the son of a poor village

[1] See *Times*, Jan. 6, 1886 ; also *Associated Homes*, by Mr. E. Vansittart Neale, and also *Twenty Years of Co-partnership at Guise*, translated by Mr. Aneurin Williams.

shoemaker, who in his twentieth year was working as a labourer upon wages of 3*s.* a day. From this humble beginning he quickly succeeded in raising himself to be the head of a large business. This in itself is no uncommon circumstance; but Leclaire was a very uncommon man, for instead of being content with the personal enjoyment of the wealth he had thus honourably earned, he set himself to devise a scheme to enable all his workmen to become his partners. "I asked myself," he says in his account of his life, "could a workman in our business, by putting more heart into his work, produce in the same lapse of time—*i. e.* a day—a surplus of work equivalent to the value of an hour's pay, *i. e.* 6*d.*? Could he, besides, save 2½*d.* a day by avoiding all waste of the materials entrusted to him, and by taking greater care of his tools?" If these questions could be answered in the affirmative Leclaire foresaw a clear extra profit of more than £3000 a year. (He employed 300 men and there were 300 working days in the year.) He did answer these questions in the affirmative, and the result shewed that he was right. He divided his profits with his workmen for the first time in 1841, and the sum thus annually divided increased very rapidly as the scheme began to take effect in stimulating the zeal and trustworthiness of the labourers. The plan adopted was this: there was a mutual aid society established among Leclaire's workmen, which at first was almost identical with an ordinary benefit society. The capital of this society grew and increased and was invested in the business: hence the mutual aid society became a partner as it were, and all its members participated in the profits. The business has made steady progress from its beginning; it was so judiciously organised by Leclaire that his death, which occurred in 1872, did not interfere with its prosperity. At the time of Leclaire's death the business turn-over of the house was about £80,000. Ten years later in 1882 it was £125,580. The total amount distributed as the men's share in the profits between 1842 and 1882 was £117,000. The number of men among whom the distribution was made in 1882 was 998.[1]

Co-operative Creameries in Ireland. Considerable

[1] I am indebted to Mr. W. H. Hall as well as to Mr. Sedley Taylor for the details of M. Leclaire's scheme of co-operation.

progress has been made in a form of agricultural co-operation in the south and west of Ireland, in what are known as Co-operative Creameries, of which the Rt. Hon. Sir Horace Plunkett was the originator. The plan pursued is to establish a creamery, which is really a butter factory; the farmers in the neighbourhood are invited to become shareholders, in the proportion of a £1 share for every cow they possess. All the shareholders send in their milk once or twice daily to the creamery; it is immediately measured, tested and paid for, in proportion to the quantity of cream it yields. The butter-milk and skim-milk are returned. The whole of the cream thus collected is converted into butter, on the most approved methods. Uniformity as well as excellence of quality is specially aimed at, as this is one of the most important conditions for commanding a good market. In April 1894 there were 33 of these co-operative dairies in Ireland with eight branches. In April 1895 there were 56 with eight branches, and 15 more in the course of formation. In 1901 there were 196, with 33,064 members and a turnover of £844,139. In 1902 there were 247, with 41,299 members and a turnover of £1,039,615.[1] These associations do not confine themselves simply to dairying; their general aim may be described to be to enable their members to buy cheap and sell dear; instead of buying dear and selling cheap. Thus in the purchase of manure alone, four of these societies in 1894 effected a saving for their members of £4249. They collect and sell poultry, eggs, etc.; and they own agricultural machinery, which their shareholders can have the use of at a moderate cost. It must be remembered that in Ireland the farms are mostly very small, and the farmers do the actual manual work of their farms with their own hands. The co-operation required, therefore, is not so much that of a union of capital and labour, but that of mutual association enabling a number of small farmers, by banding themselves together, to command many of the advantages of the large farmer.

Co-operative Credit Banks. The principle of co-operative banking is to bring, by means of association, the advan-

[1] See Report of the Irish Agricultural Organisation Society, Limited, for 1902.

tages of credit within the reach of small producers who could not otherwise obtain a loan except at usurious interest. If a rich man or a large manufacturer requires a loan for the development of his business he can easily obtain it, because by mortgaging his property or in some other way he is able to give good security for its repayment. But the position of a poor man is quite different. However advantageously he could lay out a small capital in reproductive industry, he has great difficulty in obtaining a loan because he cannot offer legal security for its repayment. But this difficulty can be overcome by combination ; and an association of fifty or one hundred small cultivators or small producers, by making themselves jointly and severally responsible for debts contracted with their consent by any one of them, can offer security which is "good" in the strict commercial sense of the term.

The Schultze-Delitzsch and Raiffeisen Credit Banks. Credit banks for small cultivators and small producers have had a very great success in Germany and Italy and some other continental countries. The Raiffeisen banks were started by a gentleman of that name in 1849 ; and the Schultze-Delitzsch banks, also named after their founder, in 1851. Unlimited liability of each for all and all for each is their essential principle. The Raiffeisen banks are for agriculturalists only : each bank is strictly limited to its own parish or hamlet ; this secures the personal knowledge of each other by the members, without which the unlimited liability principle would be unworkable : no loan is made except for strictly reproductive purposes ; every member applying for a loan must not only satisfy the committee upon this point, but must produce two sureties who are responsible to the society for seeing that the loan is applied in the manner specified : if the money borrowed is used to purchase or to make anything insurable, it must be insured. Tools, buildings, machinery, the lives of animals, for instance, must all be insured. These various precautions protect the society from loss. The managers, with the exception of the secretary, receive no salary ; the banks do not exist for the purpose of making a profit, but to bring the use

of small loans within the reach of the small cultivator. Originally no shares were issued, but now each member must have one share and one only, and the same interest is paid on this as that which is charged for a loan. During the first ten years, from 1849, only four of these banks were founded, but since that time they have increased rapidly. In 1891 there were 135 Raiffeisen banks with 70,000 members in Neuwied; 77 banks with 9247 members in Baden; 276 banks with 19,000 members in Wurtemburg; 190 banks with 20,239 members in Westphalia.

Banks have been started and have worked successfully on the Raiffeisen principle in Italy,[1] Austria, France and Russia. Nearly all who have had personal experience of their working speak of their excellent moral effect, as well as their usefulness from the economic point of view. A drunkard, a profligate, or an idler would have little chance of being accepted as a member, because his neighbours would not be likely voluntarily to make themselves responsible for money advanced to him. From Italy we hear of old men beginning to learn to read and write, because illiterates are not accepted as members. These banks also promote neighbourly feeling and active helpfulness one to another on the part of their members. Signor Vollemberg, who started Raiffeisen banks in Italy, writes that they "act as a practical school of social education. Where formerly, in envy or indifference, men quietly or even joyfully watched the misfortunes of their neighbours, community of interests now excites an affectionate solicitude which finds expression in help and counsel. Since all are personally responsible, each one concerns himself in the welfare of all, through which his own particular welfare is secured."[2] Raiffeisen banks form a very important feature of agricultural co-operation in Ireland. There was

[1] See article in *Manchester Examiner*, Feb. 28, 1896: "Rural Banks in Italy," and *Journal of Statistical Society*, Dec. 1895.

[2] See article on "Agricultural Credit Banks," by Mr. R. Yerburgh, M.P., reprinted from *Mark Lane Express Almanac*, 1895; and also *Reports from Her Majesty's Representatives Abroad on the Raiffeisen System*, Commercial No. 6, 1895 [C.—7896].

one only in 1895 and in 1902 there were 145, with more than 6600 members; no failures have taken place and no loss has been incurred.[1]

The Schultze-Delitzsch banks have the same fundamental principle of unlimited liability as the Raiffeisen banks; but they differ from them in the following particulars: they are for all classes of small producers, not agriculturalists only; their officials are paid; shares are issued in the ordinary way, and high dividends are paid on them. They have had a very remarkable success. In 1877 there were 1827 of these associations in Germany, with over 1,000,000 members, owning £8,000,000 of capital, and doing a business of the annual amount of £110,000,000.[2] In 1883 the number of these banks had increased to 3500, and they had made a more than proportional increase in membership and in capital.

It may seem strange that in Great Britain, where banking is more developed than in other European countries, very small progress has been made in co-operative banking. The reason probably is that in England the tendency has been for production to be carried on both in agriculture and manufactures on a large scale: the small producer and the small farmer have given place to the man with large capital. In Scotland the field that would otherwise have been occupied by co-operative banks has been filled by what is known as the "cash credit" system adopted by ordinary banks. Under this system over-drafts on current accounts were regularly allowed, the advances being secured to the bank by two sureties or "cautioners" as they are called in Scotland. In Ireland, where small farming prevails far more than in any other part of the United Kingdom, the tenants who now possess a property in their tenant-right have an available asset on which they can obtain an advance of

[1] See Report of the Irish Agricultural Organisation Society, Limited, for 1902, also *Ireland in the New Century*, by the Rt. Hon. Sir H. Plunkett.

[2] *Economics of Industry*, by Prof. and Mrs. Marshall, p. 223, also *Co-operative Agricultural Credit in Germany and Switzerland*, 1902, by H. de F. Montgomery, Department of Agriculture and Technical Instruction for Ireland.

money from the ordinary banks. The Land Act of 1903, by facilitating the purchase of their farms by the tenants, will make Ireland much more than before a country of peasant proprietors. This will place at their command an additional security for any loan they may desire to raise.

Co-partnership, Profit-sharing and Co-operative Production. There have been a great many experiments in co-operative production and profit-sharing in England, a large number of which have been failures. One chief cause of this disappointing result is that the promoters of these experiments too often acted as if they believed that the co-operative principle, without either business experience or capacity, was sufficient to secure industrial success. Where experiments in co-partnership and co-operative production have succeeded, it has been where there has been a fortunate combination, in the managers or directors, of an enthusiastic belief in the beneficial influences of co-operation with business knowledge and ability and the power of governing men. An instance may be given in the history, since 1889, of the South Metropolitan Gas Company. In that year the managing director and chairman of the company, Mr. (now Sir) George Livesey, conceived the idea of profit-sharing or co-partnership as a means of securing mutual confidence between employers and employed, and of inducing the men to take a real interest in the welfare of the company. The Gas-Workers' Union and the Coal-Porters' Union had lately been formed, and the company were continually harassed by what they felt to be unreasonable demands on the part of these unions, and also by the evidence of hostility and antagonism which they constantly displayed. In October 1889, Sir G. Livesey made to the whole of the workmen, numbering about 3000, the following offer: those who would sign an agreement to work upon given terms for twelve months[1] were offered a share in the profits of the company in the form of a percentage on their wages; and in order to make the advantages of this offer at once a tangible reality, its effect was to be

[1] The power of individuals to leave during the term for which they had signed the agreement was safeguarded in the contract.

retrospective; that is to say, the company, in October 1889, offered to every man who accepted the agreement, and who had been three years in their service, a bonus of 8 per cent. calculated on one year's wages: thus if a man were receiving 30*s.* a week he would, if he accepted the company's terms, be at once credited in their books with a sum of rather more than £6; and besides this he would in future participate in the profits earned in proportion to his wages. About 1000 out of the 3000 men employed by the company accepted this offer, and the sum credited to them by the company amounted to £8000; this sum is generally spoken of as a "nest-egg"; for while future bonuses were to be withdrawable as soon as they became due, the "nest-egg" was to remain in the nest for a period of five years. As the profits of the company are regulated by Act of Parliament and are made to depend on the price of gas, rising as the price of gas falls, and falling as the price of gas rises, the participation in profits by the workmen gave them a direct pecuniary interest in trying to make gas as cheap as possible; that is, it was a constant stimulus to them to work with efficiency and economy.

It is not difficult to understand that the Unions vehemently objected to the plan proposed; as it took from them the power of ordering a strike at a few days' notice. It was quite open to any man, or any number of men, to refuse the offer of the directors, and to say, "No, we prefer the power to strike, to the share in your business you are offering us;" but they went far beyond this, and demanded of the directors that the agreement voluntarily offered by them and voluntarily accepted by a thousand of their men should be cancelled. This monstrous demand, at variance with every principle of individual liberty, was sturdily resisted by the directors. Sir G. Livesey guaranteed to every man who had accepted his offer that he should be protected at any cost, and by all the power which the company or the law could command, and throughout the strike which followed he was as good as his word. The Unions were thoroughly beaten, and from that time the profit-sharing principle has steadily developed, and has become one of

the most satisfactory features in the growing prosperity of the company.

Besides the share in the profits which was the fundamental principle of the scheme as originally propounded in 1889, a further development has enabled the workmen to become shareholders, and on December 31, 1895, they held £25,628 in the shares of the company, besides owning a sum of £33,227 in the form of accumulated bonus, interest and savings; making in all £58,855 owned by the workmen in the business. In 1903, 4500 of the employés of the company owned stock and deposits amounting in value to nearly £200,000. The title "profit-sharing," which was originally used, has been changed to "co-partnership," as more completely descriptive of the existing conditions. An important step in the direction of true co-partnership was taken in 1896, when workmen owning shares were allowed to elect representatives to sit on the Board of Directors. The employés now have three representatives on the Board, two workmen and one officer. After seven years' experience the managing director reports in 1904 that the Workmen Directors have been a complete and unqualified success. There are 2519 workmen who own more than £5 and less than £50 in the company, 321 who own between £50 and £100. The average per man works out at £47 a head. The system has been such a marked success from every point of view that it was adopted by the Crystal Palace and District Gas Company in the year 1894, and is working well there also. The average per man which is held in this company is £35.

One satisfactory feature of the system is that although the bonuses (except the initial nest-egg) are withdrawable as soon as they become due, a very small proportion is actually withdrawn. When the scheme was first started, about half of the annual bonus was withdrawn each year; in the year ending July 31, 1903, only 7 per cent. of the bonus was withdrawn. The scheme has therefore promoted thrift to a very remarkable degree.

Besides the money advantage to employers and employed, Sir George Livesey and many of the workmen have repeatedly

expressed their satisfaction at the friendly spirit which has grown up among them since the profit-sharing scheme came into operation. Sir George Livesey said in his evidence before the Labour Commission, 1892 : "It gave, in place of hostility and antagonism, peace and good-will; in place of doubt and mistrust, confidence; and in place of sullen, discontented workmen, a body of cheerful, willing, capable workers with whom it was a pleasure to be associated."

A desire to give the workmen a direct and obvious pecuniary interest in their own individual efficiency has led (March 1904) to the adoption of what is called the "premium system" in the Government dockyards. The scheme is described in the official circular as enabling workmen to earn in addition to their ordinary weekly wages, extra remuneration for doing work more quickly than in the fixed time allowed for it. Thus if the time allowed for a certain piece of work is 48 hours, and the man finishes it in 36 hours, he saves a quarter or 25 per cent., and he is credited with an extra 25 per cent. of the time taken to do the job; *i. e.* he saves 12 hours, a quarter of 48, and is credited with 9 hours, a quarter of 36. In the illustration just given, if the man were a mechanic earning 36*s.* a week of 48 hours, or 9*d.* an hour, his premium would amount to 9*d.* × 9 = 6*s.* 9*d.*

"It is hoped that the introduction of the premium system will lead to the workmen taking an increased interest in their work, machines, tools and equipment generally, and to keenness on their part in pointing out to their officers where improvements may be made and time saved."[1]

Co-operative Production in England.[2] There are a considerable number of manufacturing co-operative societies in England and Scotland, though comparatively few of them have maintained that complete identity between capital and labour which is the co-operators' ideal. The majority of

[1] The official circular is given in full in *The Times*, February 29, 1904, p. 7.

[2] See *Co-operative Production*, by Benjamin Jones, Clarendon Press, Oxford, 1894; and *Co-operative Workshops in Great Britain*, 1895, by Thomas Blandford; and *The Formation of the Hebden Bridge Society*, by Joseph Greenwood.

co-operative productive associations in England do not make it a *sine quâ non* that their shareholders and their workers should be the same people. It has probably been found in actual working that it was not practical to make this an absolute rule; but where it has been departed from the chief of the co-operative manufacturers compromise by the adoption of profit-sharing among the workpeople who are not shareholders. A typical example may be given in the history of the Hebden Bridge Fustian Manufacturing Society. This society began in 1868, by about thirty of the workpeople agreeing to combine together to save threepence a week each, in order to get a small sum to set up fustian cutting on their account. The society was not registered till 1870. No one was allowed, in the first instance, to be a member who was not engaged in the trade; the object of the society was defined as "to find employment for its members by the manufacture and sale of fustians, and for that purpose to accumulate £1000, by contribution of money, labour and profits." The £1000, however, was not forthcoming from the members of the association, and it was resolved to throw open the share list to the public. The association began to work, however, long before they had even a tenth of the capital at which they originally aimed. At the end of the year 1870 there were 95 members; the capital was £82 18*s.* 3*d.*, the sales amounted to £55, and profits to £3 1*s.* 8*d.* From this very small beginning the Hebden Bridge Factory has gone on steadily, and in the early years, rapidly growing. The bonus given on labour is allowed to accumulate, and is placed to share account until the worker has £20 invested in the society. The bonus, depending as it does on profits earned, has varied considerably in amount. In some half-years it has been as high as a shilling in the pound on wages, and in others as low as threepence; while in some few half-years no bonus has been paid at all. The business of the society, which was at first confined to fustian-cutting, now embraces weaving, dyeing, and the manufacture of ready-made clothing. The following figures show the growth of the society:—

CAPITAL.

	MEMBERS.	SHARE.	LOAN.	RESERVE.	SALES.	PROFIT.
		£	£	£	£	£
1870	95	83	3	—	55	3
1880	384	15,693	3,065	556	18,625	1,774
1890	684	21,764	9,081	1,595	38,794	3,499
1894	769	24,904	8,770	2,890	40,317	4,171
1903	858	28,481	2,071	3,123	43,594	3,306

Co-operative Stores. Some misapprehension may arise by confusing co-operation with the so-called "co-operative" stores which have become so popular in London and other large towns. The real nature of co-operation is a union between capital and labour. In such institutions as the Civil Service Stores and the Army and Navy Stores, there is not necessarily any connection between capital and labour. Each of these is a joint-stock company, the shares of which are owned, for the most part, by those who do not contribute by their labour to the success of the store. The shopmen and superintendents may own shares, but it is not an essential part of the undertaking that they should do so. A co-operative store relies for its success, not on a union of capital and labour, but mainly upon the ready-money principle, and in bringing the producer into more direct communication with the consumer, by which means the profits of two or three "middlemen" may be saved and prices reduced. The "co-operation" which exists in a store is not a co-operation between capital and labour, but between the consumer and the distributor. The prices of commodities sold in the co-operative store just named are less than those charged in an ordinary shop, because no bad debts are made, no expensive advertising need be resorted to, no costly shop-fronts need be kept up, and the cost of carriage of goods sold is not borne by the proprietors of the business. There is no reason, except the difficulty of overcoming the prejudice against

anything new, why nearly all tradesmen should not conduct their business on the same principles as the co-operative stores.

The Rochdale Pioneers. The most celebrated of co-operative stores is that of the Rochdale Pioneers. In this society the ready-money principle is strictly adhered to, and the goods are sold at the ordinary retail prices. The accounts are made up quarterly, and the profits are divided in the following manner: 5 per cent. per annum is allowed as interest on the shareholders' capital, $2\frac{1}{2}$ per cent. of the profits are devoted to educational purposes; and the remainder is divided among the purchasers, each customer receiving an amount proportionate to the sum which he has expended in purchasing commodities at the store. The Rochdale Pioneers' Society, which was started by workmen, and began in 1844 with sufficient capital only to buy one chest of tea and a hogshead of sugar, has achieved such a remarkable success that it has found imitators all over the country. In Rochdale itself there were, in 1894, three of these stores, with 18,785 members; a share and loan capital of £457,871; an annual trade of £391,080; and a profit for the year of £53,303. Mr. Benjamin Jones, in his book *Co-operative Production*, gives many interesting examples to shew that the co-operators in the North of England were really pioneers in many important social reforms; they devoted part of their profits every year to educational purposes; they instituted the weekly half-holiday for their employés long before the custom became general, and were earliest in the field in shortening the hours of labour; they also acted on the principle laid down by the Married Women's Property Act long before there was any legal sanction for their doing so. Co-operation in its various forms is one of the best products of the energy and self-help of English working men and women.

Questions on Chapter V. *Co-operation, etc.*

1. Describe co-operation, co-partnership, and profit-sharing, and give illustrations of each.

2. Does profit-sharing involve any pecuniary sacrifice on the part of the employers?

3. What are its special advantages?

4. Describe the principle of the Raiffeisen and Schultze-Delitzsch credit banks.

5. Explain why trades' unionists are not always friendly to co-operation.

6. What is a co-operative store? Upon what principle is it based?

7. Why can lower prices be charged in a co-operative store than in an ordinary shop?

8. Give a brief account of the Rochdale Pioneers' store.

SECTION IV

On Foreign Commerce, Credit and Taxation

THIS section comprises chapters on Foreign Commerce, Credit and its influence on prices, and Taxation. It will perhaps appear that foreign commerce and credit should have been explained in the section headed "The Exchange of Wealth." It however seems that in a short and elementary book there are many advantages in separating the subjects usually comprised under the head "Exchange of Wealth." A knowledge of the meaning of value and price, of the causes which regulate the prices of commodities, and of the true nature of money, is essential to a right understanding of the causes which determine the respective amounts of rent, wages and profits. At the same time the subjects of foreign commerce and credit, if introduced prior to the consideration of the distribution of wealth, might have wearied and perplexed the beginner. These subjects have therefore been reserved for the fourth and last section.

CHAPTER I. *On Foreign Commerce.*

A development of Foreign Commerce ensures division of labour. The great advantage derived from foreign commerce is that which is obtained by division of labour. If countries trade freely with each other, the natural consequence is that each nation gradually increases the production of those commodities for the manufacture of

which circumstances have specially adapted it; at the same time it decreases the manufacture of those commodities which it has no particular facilities for producing. In this way the cost of production is diminished, and capital and labour work with their maximum efficiency. Take an example: France has great natural advantages for the manufacture of wine; her climate and the habits of her people cause the cultivation of the vine to be carried on with great success. Such countries as France, therefore, produce not only sufficient wine to supply their own wants, but also enough to satisfy the demand of countries like England, the climate of which is unsuited to the cultivation of the vine. The advantage of foreign trade is that we can get from foreign countries either what we could not produce at all for ourselves; or else we get commodities in exchange for a smaller expenditure of labour and capital than it would cost us to produce them ourselves.

Protection is disastrous to the general interests of the community. The salt mines of Cheshire and those existing in Salzburg and other parts of Germany give to that country and to England special advantages for the production of salt. In the absence of protective duties probably all the salt required in France would be provided by England and Germany; the salt procured in Northwich and Droitwich is of excellent quality, and requires comparatively so little labour to render it fit for use that it may be almost regarded as a free gift of nature. This salt can therefore be sold at a very low price, while at the same time it is superior in quality to that produced by the more elaborate processes employed to manufacture salt in France. In a word English salt is both better and cheaper than French salt,[1] and would command the market if the trade were free. But the French protectionist says: "This must not be, there is a large class of industrious people in France engaged in the industry of making salt, and a branch of our home trade would be destroyed if English salt were admitted

[1] A great portion of the salt used in France is procured by the evaporation of sea-water. It is coarse in quality compared with English salt.

into France duty free. We must levy so large an import duty on English salt as to bring up its price to something in excess of the price of the salt produced in France; this will keep English salt out of France and encourage a branch of native industry." This is accordingly done: a heavy import duty is levied on foreign salt, which is thus kept out of the market. It is quite true that this policy "protects" the salt trade in France; that is, it induces a certain amount of the disposable capital and labour of France to engage in a trade which is comparatively unproductive of wealth. What the protectionist forgets, however, is that if the protection were withdrawn and the unproductive trade in consequence ceased to exist, the capital and labour engaged in it would not remain idle; they would seek some other employment in which the wealth produced would be a sufficient recompense without the adventitious aid of protection. If the salt manufacturers of France were undersold by the salt manufacturers of England, the former might for a time suffer pecuniary loss; but the ultimate result would be that they would gradually withdraw their labour and capital from a comparatively unremunerative trade, and employ them in some other industry, for which France possesses exceptional advantages. Thus there is no loss, but a transfer of capital and labour from a comparatively unremunerative employment to one in which they would work with greatly increased efficiency. In such a case, the total production of wealth is increased, and the national capital consequently augmented.

An illustration of this transfer of capital and labour from one kind of industry to another may be seen in what is happening now in English agriculture, in the face of the recent large imports of food from America, Australia and other distant parts of the world. The English farmer is being undersold in regard to a large number of commodities. With a few exceptions here and there, the English farmer does not cry out for protection; but he casts about to discover what kinds of crops he can still produce where he can hold his own against imported commodities. The next few years will probably see a great many farms turned into huge

market-gardens, because fresh flowers, fruit and vegetables cannot be so largely imported as the less perishable commodities just referred to. A movement has already begun in this direction; and it should be remembered that the general body of consumers, having to spend less for their necessaries, such as bread, meat and cheese, will have more to spend upon such luxuries as flowers and fruit. Similar causes have also produced a movement in English agriculture from arable to pasture. In the breeding of horses and in production of fresh milk and cream the English farmer feels the pressure of foreign competition less than in the production of wheat and other corn crops.

The cost of Protection to the consumer. This leads to a consideration of the effect of protection upon the consumers of the commodities produced in the protected trades. Protectionists have usually no consideration whatever for the consumers. They busy themselves much in protecting the producers, but they never consider the consumers: and it must be remembered that if the article protected is a necessary of life, to overlook the interests of the consumer for the supposed benefit of the producer, is to prefer the well-being of a part to the well-being of the whole. Let us consider what is the effect of the protective duty on salt in France upon the entire body of the French people. In the first place they have to put up with an inferior article. This is a disadvantage which it is hardly possible to measure in money, but it is nevertheless a very real and distinct disadvantage, for besides the annoyance of having coarse and gritty salt at table, there is also to be considered the effect of using an inferior kind of salt for agricultural and manufacturing processes. But if the pecuniary loss involved through using an inferior article cannot be accurately measured, that arising from an increase in price can be reckoned up with a very considerable degree of exactitude. Those acquainted with the trade assert that the protective duty raises the price of salt in France one half-penny a pound. Now the annual consumption of salt in France for domestic purposes is 350,000,000 lbs., therefore the French people are fined £750,000 every year in the extra

price they pay for their salt ; and no one is one half-penny the better ; for this £750,000 is a measure of the natural disadvantages the French producers of salt labour under compared to the English producers of salt. It is as if a man had a beautiful spring of water close to his door but situated in his neighbour's garden : the neighbour says he may take all he likes for a rent of £4 a year ; he will not however accept the offer because he has a spring of his own. But his own spring is a mile away and the water is not so good ; moreover instead of getting all he wants for £4 a year he has to pay a boy 3*s.* a week or £7 16*s.* a year in order to bring him one pail of water every day. He therefore fines himself in three ways. He has an inferior kind of water ; he has less of it ; and he pays £3 16*s.* more for it. And no one is benefited by this expenditure, not even the boy who gets the 3*s.* a week ; he could earn 6*d.* a day in a hundred different ways quite as easily as he earns it by carrying the water, the 6*d.* a day is no more than a bare compensation to him for the labour he endures ; no favour is conferred on him ; he gives full value for what he receives.

The effect of Protection on Wages. We have now traced the effect of protection on the prices of protected commodities : it is almost invariably the case in protectionist countries that among the protected articles there are many of the daily necessaries of life. Where this is so, protection decreases the wages of labour ; the real reward of the labourer is diminished because his money-wages will exchange for a smaller quantity of commodities. And on the other hand free trade, by decreasing prices, tends to increase the real reward of the labourer, and confers a direct benefit upon thousands of people. If any necessary of life is cheapened one of two things must occur, either the cost of production is decreased, or the real reward of the labourer is increased. If wages remain the same, after the price of a necessary is decreased, the real reward of the labourer is augmented, because his money-wages will exchange for a larger quantity of commodities. If, on the other hand, wages are decreased in proportion to the increased cheapness of a necessary, the real reward of the labourer remains the

same, whilst the cost of production is decreased. It is therefore evident that the benefits attending a decrease in the price of any of the necessaries of life are much more general in their operation than the supposed benefit which is conferred upon producers by protecting them against foreign competition. A decrease in the price of a commodity also leads to an increased accumulation of capital; for the expenditure of consumers being reduced they have greater opportunity of saving, and a larger amount of wealth is consequently employed as capital. In striving to protect the producers of a commodity, protectionists thus inflict a much deeper injury upon the whole community than at first sight appears.

Protection often produces results that are little expected by its promoters; for instance, it often prevents new industries being established in the protected country. It was stated in the London papers at Christmas 1883 that for the first time the Paris *Figaro* had issued a large illustrated Christmas number after the fashion of our *Illustrated London News* and *Graphic*. The presses for printing this number were set up in London, and there was considerable outcry on this subject in the other Parisian papers. The secretary of the *Figaro* admitted that his paper could be as well printed in Paris as in London, but said that while in London each press cost £200, in Paris it would have cost from £600 to £700. This enormous difference in cost was to a great extent due to the French import duties on foreign machinery.

The wastefulness of Protection is another of its most striking features. There is a considerable trade in the neighbourhood of Smyrna in gathering and boiling down liquorice for the English market. But for the American market the plant has to be shipped raw, that is containing 90 per cent. of water, because the American tariff virtually prohibits the introduction of the manufactured liquorice. Hence for every ounce of liquorice that is brought to America nine ounces of water are brought also, which is boiled away after being uselessly carried across the ocean thousands of miles. Of course those who consume the

liquorice have to pay for carrying the nine-tenths of water thus thrown away.

The Sugar Convention, 1902. For many years after 1870 the sugar refining industry of Great Britain was subjected to very severe competition, especially from France, the Government of which gave its own sugar producers and refiners a bounty on the growth and export of sugar. For some years it was calculated that the French taxpayers were called upon to pay as much as £4,000,000 annually in the form of bounties on sugar. The number of sugar refiners in England dwindled from sixty in 1864 to thirty in 1882, and to fifteen in 1903. But the consumption of sugar had been so extraordinarily stimulated in England by its cheapness that the fifteen refiners in 1903 were doing far more business than the sixty in 1864. The annual payment by the general public of France of £4,000,000 was in fact, though not in intention, a gift to the general public of England, enabling English people to obtain sugar at something less than cost price. Sugar was far cheaper in England than in the countries where it was produced, being about 1½*d.* per lb. in England as compared with about 3½*d.* a lb. in Germany, and even for a time as much as 5½*d.* a lb. in France. The consumption of sugar in England under these circumstances increased very rapidly, and became far higher than that of any other European country or that of the United States.

Yearly consumption of sugar in the United Kingdom per head of population in 1902 :—

	lbs.
United Kingdom	78·7
United States	68·70
Germany	27·11
France	26·80
Austria Hungary	16·87
Russian Empire	9·58
Italy	6·79

The cheapness of sugar in the United Kingdom not only promoted a large domestic consumption, but was likewise very favourable to such trades as jam and biscuit making. The large consumption of sugar in England was also an

advantage to the Exchequer because, when it was necessary to raise extra taxation on account of the South African war, it was found that ½*d.* a lb. on sugar brought in nearly £7,000,000 annually to the revenue.

It was however argued that it was an unsatisfactory condition of things to be obtaining sugar in part as a gift from foreigners. Representatives of the English sugar trade felt that they were being subjected to an unfair competition, and repeated efforts were made by agreement with the sugar-producing countries to induce them to put an end to the bounty system. In 1902 an International Convention was formed and sits in Brussels, representing all the chief countries interested in the sugar trade. The object of the Convention was to extinguish bounties either by the prohibition of the import of bounty-fed sugar or by the creation of countervailing import duties. The necessary legislation for giving effect to the decisions of the Convention, in the United Kingdom, was passed in 1903 and came into operation in September of that year. At the present time (March 1904) the effect of the extinction of the bounties seems to have been to raise the price of sugar in England from 6*s.* 1*d.* a cwt. to 8*s.* 4*d.* a cwt., or 38 per cent., and to cheapen sugar abroad. The higher price in England has naturally been accompanied by a decreased consumption, estimated to be as much as 26 per cent. The sugar refiners of England may benefit temporarily by the extinction of the bounties; but other trades such as jam and biscuit making and the manufacture of confectionery have suffered by a rise in price of their raw material, and if these businesses are placed at a disadvantage in competing for foreign markets and consequently produce on a smaller scale, while the domestic consumption is also curtailed, it may be doubted whether the advantage even to the sugar refiners will be more than temporary. The abolition of the bounties was advocated very largely on account of the benefit which it was supposed would accrue therefrom to the sugar plantations of the West Indies. But since the West Indies have been taken under the special favour of the Imperial Parliament, the export of sugar from the West Indies has fallen off nearly one-half,

from 64,000 tons in 1902 to 33,000 tons in 1903. A gift of £250,000 had been made in 1902 by the British Parliament to the West Indies to enable them, as it was said, to tide over the time until the Convention came to their relief. This gift was treated by the United States as a bounty, and the West Indian sugar which before had had a preferential access to the American market, because it was not bounty fed, is now penalized by the United States tariff. At the same time Russia, considering herself injured by the Convention, immediately threatened to retaliate by enhancing her already exorbitant duty on Indian tea.

These circumstances afford a very good example of the immense complications and intricacies of foreign trade, and the difficulty of interfering with it without producing totally unexpected results. Measures supposed to be beneficial to the West Indies caused a threatened penalization of trade in the East Indies. A gift of a quarter of a million from the Imperial Parliament to aid a declining industry had the effect of accelerating its downward course. Here are some of the visible results of the Sugar Convention policy. An invisible but none the less real result is that the people of the United Kingdom, having to spend more upon their sugar, have less to spend on clothes, books and other articles, and a diminished power of saving. If sugar rises in price by ½*d.* a lb. without decreasing its consumption, this means that £7,000,000 annually is taken from the pockets of the people and the consumers only get exactly what they got before. The other trades which would have benefited if these £7,000,000 had been spent among them have suffered a loss none the less real because it cannot be tabulated in statistical tables.

The arguments of Protectionists applied to the introduction of railways. The plea of protection might have been urged with great force by the owners and drivers of stage-coaches at the time of the introduction of railway travelling: they might have said that these new-fangled railroads would cause many hundreds of people to be thrown out of employment; that coach-proprietors and the owners of roadside inns would be ruined; that the national character

would deteriorate, and that the race of horses would in a few years become extinct. All this very possibly was said, but with no avail. The coach-drivers and proprietors and the inn-keepers were a very small body compared with the rest of the community; the good of the many was preferred to the profit of the few: and a wonderful development of commerce and other innumerable advantages derived from railway travelling have resulted.

In the time of Charles II. the Thames watermen petitioned that hackney coaches might only be allowed to ply for hire in London in directions running north and south, so that all persons desiring to be conveyed east or west should be compelled to go by water.

The Candlemakers' Petition. M. Bastiat, in the following witty sketch, has placed in strong relief the absurdity of protection.

"THE CANDLEMAKERS' PETITION.[1]

"Petition of the Manufacturers of Candles, Waxlights, Lamps, Candlesticks, Street-Lamps, Snuffers, Extinguishers, and of the producers of Oil, Tallow, Resin, Alcohol, and generally of everything connected with Lighting.

"*To Messieurs the Members of the Chamber of Deputies.*

"GENTLEMEN,

"We are suffering from the intolerable competition of a foreign rival, placed, it would seem, in a condition so far superior to ours for the production of light, that he absolutely *inundates* our *national market* with it at a price fabulously reduced. The moment he shews himself our trade leaves us—all consumers apply to him; and a branch of native industry, having countless ramifications, is all at once rendered completely stagnant. This rival, who is no other than the Sun, wages war to the knife against us, and

[1] Many paragraphs of this petition have been omitted; but it is hoped that nothing has been left out which is essential to the line of argument adopted.

we suspect that he has been raised up by *perfidious Albion;* inasmuch as he displays towards that haughty island a circumspection with which he dispenses in our case.

"What we pray for is, that it may please you to pass a law ordering the shutting up of all Windows, Skylights, Dormer-Windows, Outside and Inside Shutters, Curtains, Blinds, Bull's-eyes; in a word of all Openings, Holes, Clinks, Clefts, and Fissures, by or through which the light of the Sun has been allowed to enter houses, to the prejudice of the meritorious manufactures with which we flatter ourselves we have accommodated our country,—a country which, in gratitude, ought not to abandon us now to a strife so unequal.

"We urge the following reasons in support of our request First: if you shut up as much as possible all access to natural light, and create a demand for artificial light, which of our French manufactures will not be encouraged by it?

"If more tallow is consumed, then there must be more oxen and sheep; and consequently we shall behold the increase of artificial meadows, meat, wool, hides; and, above all, manure, which is the basis and foundation of all agricultural wealth.

"If more oil is consumed, then we shall have an extended cultivation of the poppy, of the olive, and of colewort. These rich and exhausting plants will come at a right time to enable us to avail ourselves of the increased fertility which the rearing of additional cattle will impart to our lands.

"Our heaths will be covered with resinous trees. Numerous swarms of bees will, on the mountains, gather perfumed treasures, now wasting their fragrance on the desert air, like the flowers from which they are derived. No branch of agriculture but will then exhibit a cheering development.

"The same remark applies to navigation. Thousands of vessels will proceed to the whale fishery, and in a short time we shall possess a navy capable of maintaining the honour of France, and gratifying the patriotic aspirations of your petitioners.

"But what shall we say of the manufacture of *articles de Paris?* Henceforth you will behold gildings, bronzes, crystals, in candlesticks, in lamps, in lustres, in candelabra, shining forth in spacious ware-rooms, compared with which those of the present day can be regarded but as mere shops.

"No poor *Résinier* from his heights on the sea-coast, no coal-miner from the depth of his sable gallery, but will rejoice in higher wages and increased prosperity.

"Only have the goodness to reflect, Gentlemen, and you will be convinced that there is perhaps no Frenchman, from the wealthy coal-master to the humblest vendor of lucifer matches, whose lot will not be ameliorated by the success of our Petition. If you urge that the light of the Sun is a gratuitous gift of nature, and that to reject such gifts is to reject wealth itself, under pretence of encouraging the means of acquiring it, we would caution you against giving a death-blow to your own policy. Remember you have hitherto always repelled foreign products, because they approximate, more nearly than home products, to the character of gratuitous gifts. To comply with the exactions of other monopolists, you have only half a motive; and to refuse us, simply because we stand on a stronger vantage-ground than others, would be to adopt the equation, $+ \times + = -$; in other words, it would be to heap absurdity upon absurdity.

"Nature and human labour co-operate in various proportions (depending on countries and climates) in the production of commodities. The part which nature executes is also gratuitous; it is the part executed by human labour which constitutes value and is paid for. If a Lisbon orange sells for half the price of a Paris orange, it is because natural, and therefore gratuitous, heat does for the one what artificial, and consequently expensive, heat must do for the other. When an orange comes to us from Portugal, we may conclude that it is furnished in part gratuitously, in part for an onerous consideration; in other words, it comes to us half-price as compared with those of Paris.

"Now it is precisely the gratuitous half (pardon the word) which we contend should be excluded. You say, How can

national labour sustain competition with foreign labour, when the former has all the work to do, and the latter only does one half, the Sun supplying the remainder? But if this half, being gratuitous, determines you to exclude competition, how should the whole, being gratuitous, induce you to admit competition? If you were consistent, you would, while excluding as hurtful to native industry what is half gratuitous, exclude *a fortiori* and with double zeal that which is altogether gratuitous. Once more, when products such as coal, iron, corn or textile fabrics are sent us from abroad, and we can acquire them with less labour than if we made them ourselves, the difference is a free gift conferred upon us. The gift is more or less considerable in proportion as the difference is more or less great. . . . It is as perfect and complete as it can be when the donor (like the Sun in furnishing us with light) asks us for nothing. The question, and we ask it formally, is this: Do you desire for our country the benefit of gratuitous consumption, or the pretended advantages of onerous production? Make your choice, but be logical; for as long as you exclude foreign fabrics, in proportion as their price approximates to *zero*, what inconsistency would it be to admit the light of the Sun, the price of which is already at *zero* during the entire day!"

Foreign trade will be advantageous to both countries only when the relative cost of the commodities exchanged is different in each country. Having now explained the general principles of Free Trade, and the advantages which nations derive from foreign commerce, let us inquire into the actual effect of the exchange of commodities between two such countries as France and England. In the first place, it must be borne in mind that no profit arises from the exchange, by two countries, of one commodity for another, unless the relative cost of the two commodities is different in the two countries. Both commodities may be cheaper in the one country than in the other, but they will not be exchanged unless their relative cost is different. For instance, gloves and spirits may both be cheaper in France than in England; it may therefore appear evident that France will never send gloves to England

in exchange for spirits; but suppose that in France four pairs of gloves are equal in value to a gallon of spirits, whilst in England four pairs of gloves will exchange for one gallon and a quarter of spirits. In this case a French glove-merchant would gain a quarter of a gallon of spirits for every four pairs of gloves which he exchanged with England; and the exchange might accordingly take place with advantage to both countries. If, however, the relative value of gloves and spirits were the same in each country, no exchange of these commodities would take place, because the merchants conducting such an exchange would realise no profit by the transaction. If four pairs of gloves equal in value a gallon of spirits in France and in England, a French glove-merchant would not seek to effect an exchange with an English spirit-merchant, because he would not gain anything by so doing. It has now been proved that the relative cost of the commodities which are exchanged must be different in the two countries effecting the exchange. But the amount of difference has not yet been defined. The difference must be at least sufficient to cover the cost of conveying the commodity from the one country to the other, and to leave a margin of extra profit to the exporter. For no merchant will undertake the trouble and risk of exporting a commodity to a foreign country, if the price realised by the exported commodity is such that his profit is no greater than he would have obtained by selling the commodity in his own country.

The terms of the exchange are regulated by an equalisation of Demand and Supply. The minimum difference in the relative value of the commodities has been defined; but the difference may temporarily be much more than sufficient to cover the cost of carriage and to leave a small margin of profit for the exporter. Suppose for instance that a ton of coal in France will exchange for a quarter of wheat, whilst in England at the same time a ton of coal will only exchange for one-third of a quarter of wheat. We may assume that the English coal-merchant considers himself sufficiently recompensed if, in England, a ton of coal exchanges for one-third of a quarter of wheat; but hearing

that in France he could get three times as much for his coal, he resolves upon exporting it to that country. The question now arises, Will he be able to secure the whole two-thirds of a quarter of wheat, as extra profit upon every ton of coals he sends to France? In answer to this question we refer to Section II, in which it was shewn that the price of a commodity is adjusted by an equalisation of demand and supply. We have supposed that the English merchant sends coal to France and obtains wheat in exchange for it; by this transaction it is evident that the supply of foreign wheat in England is increased, and therefore the demand for home-grown wheat diminishes; for similar reasons the amount of coal sent to France is increased, and consequently the demand for French coal diminishes. Now it was shewn in Section II, when the theory of Value was explained, that if other things remain unaltered, an increase in the demand for a commodity causes an increase in its price; and that a reduction in the demand for a commodity decreases its price. In other words, the price of a commodity is adjusted by equalising the supply with the demand. It is evident therefore that the exchange between England and France of coal and wheat affects the price of these commodities in both countries. In England the price of coal is increased because the demand is increased; and the price of wheat declines because the supply is augmented. The opposite effect is produced in France; the price of coal declining, and that of wheat increasing. It is now evident that the exchange between the two countries will not be made on the same terms as were at first agreed upon. There will no longer be a difference of two-thirds of a quarter of wheat in the exchange power of coal in the two countries; in England the exchange power of coal will have increased, in France it will have diminished; and finally, if competition is quite unchecked, the difference in the price of coal and wheat in the two countries will only be sufficient to cover the cost of carriage from one country to the other, and to afford a reasonable remuneration to the capitalist for the risk and trouble which exportation entails. The price of a commodity, in so far as there is free competition among its producers,

depends ultimately upon its cost of production. Cost of carriage is frequently an important element in the cost of production of imported commodities. When import and export duties are removed, the cost of the carriage is the principal cause of the difference of price of the same commodity in different countries. This is rendered more clear if the exchange is supposed to take place between two places where legislative enactments do not attempt to check the free interchange of commodities. For instance, Lancashire produces cotton goods, whilst Lincolnshire grows a great quantity of wheat. The difference in the relative value of wheat and cotton cloth in Lincolnshire and Lancashire would be very considerable if these counties were prevented from exchanging their commodities for those produced in other localities. As it is, however, the difference in the price of wheat and cotton in Lancashire and Lincolnshire can never be greater than suffices to cover the expense of conveying these commodities from the one county to the other. In France, previous to the Revolution, the protective spirit was so active that wheat could not be sent from one province to another in that country. The consequence was that the greatest variety of prices prevailed; wheat being plentiful and cheap in one place, whilst at another, owing to a bad harvest, it was very scarce and extremely dear. The same state of things prevailed at an earlier period of our own history. In Mrs. J. R. Green's *Henry II.* she describes the keen commercial rivalry which then prevailed between town and town. The most strenuous efforts of every township "were given to secure the exclusive right of trading. Free trade between village and village in England was then, in fact, as much unknown as free trade at this day between the countries of modern Europe." Pp. 44-5.[1]

The manner in which the supply of an exported commodity is equalised with the demand. It is not difficult to trace the manner in which the supply of an exported commodity is equalised to the demand, by an adjustment of the price. It has been assumed that an

[1] *Henry II.* by Mrs. J. R. Green. Macmillan & Co. 1888.

English merchant by sending coal to France and obtaining in exchange for each ton, a quarter of wheat, realises an extremely high profit. It therefore follows that the English merchant will export as much coal to France as he can; other merchants will also do the same, in order to participate in the exceptionally high profits. In this way the supply of coal is very largely increased in France, and in order to be able to sell it the exporters are obliged to reduce its price; at the same time, owing to the reduction of the supply of coal in England, its price is raised in that country. Hence the inducement to export coal is checked in two ways. The value of coal is raised in England and depressed in France; merchants no longer obtain as much as two-thirds of a quarter of wheat more in France than in England; what they do obtain in exchange for their coal in France is ultimately only sufficient to pay the cost of carriage and to recompense them for their risk.

Retaliation and Reciprocity. These two words in practice mean the same thing: reciprocity is the friendly, and retaliation is the unfriendly way of describing an identical policy. "If you tax our goods we will tax yours," or "hitting back," is retaliation; whereas its correlative, "Any favour you shew us we will shew you," is reciprocity. The argument for retaliation is very plausible. Why, it is argued, should we allow American, German, French and Russian produce duty free into our ports while these countries charge a high import duty against ours? The answer is because we benefit by receiving as much as possible, not as little as possible, in exchange for the goods and services which we render to other countries. Moreover, departing from the merely theoretical defence of the British policy of free imports to an investigation of the actual effects of retaliation upon the commerce of those countries which have given it a fair trial, it is proved that a tariff war between nations is almost as destructive to commercial well-being as a war in the ordinary sense of the term. There was a tariff war between France and Switzerland from January 1893 to August 1895. The result was that the value of French exports to Switzerland fell in the three years by a sum equal

to 104,895,000 francs, or nearly half of its former amount. In the same period Swiss imports to France declined by 35 per cent., or more than a third of its former amount. The mutual trade thus extinguished between France and Switzerland was acquired by Austria, Germany, Belgium, Italy and England. When France and Switzerland saw how much they were losing by their tariff war they brought it to an end; but though the trade between the two countries instantly shewed the good effect of the cessation of retaliatory duties, the business which had been diverted did not return in full to its old channels. In 1902 the business between the two countries had not recovered the prosperity which had been destroyed by the mistaken policy of the tariff war.

The Tariff War between France and Italy of 1888-99. The result of this tariff war was that in the years it lasted Italian exports to France sank 57 per cent., and France's exports to Italy 50 per cent. The enormous decline in trade between the two countries represents, so far as can be judged at the present date (1904), a permanent rather than a temporary loss, for the activity of trade is only being very slowly recovered. Friendly commercial relations were resumed in February 1899, but not before the tariff war had cost France and Italy £120,000,000 sterling, and "in spite of the new commercial treaty Franco-Italian trade has not shewn any permanent improvement since the War of Tariffs —the total volume not exceeding the half of what it was before."[1]

When there is an exchange between two countries, the profit of each country varies inversely with its demand for the imported goods. In the case of the exchange of commodities between two countries, the greatest profit is realised by that country whose demand for the imported commodity is the less urgent. Thus, in the case of exchange previously investigated, any increase in the demand for coal in France would cause the English importers of coal to obtain more favourable terms of exchange;

[1] Parliamentary paper, Commercial No. 1, 1904, "Tariff Wars between certain European states," Cd. 1938, p. 21.

the value of coal would rise, and the importers would obtain a larger quantity of goods in exchange for it. This increased value would not, however, be maintained, because it would attract a larger supply; if the value were permanently increased it would denote that the cost of production had increased in consequence of the increased demand causing less productive mines to be worked.

It must be borne in mind that the direct benefits of foreign trade consist in increasing the productive powers of the world by enabling each country to apply its capital and labour to those industries in which they will be most efficient. In so far as this is done, commodities are produced with the least possible expenditure of capital and labour. On this point Mr. Mill says, "There is much misconception in the common notion of what commerce does for a country. When commerce is spoken of as a source of national wealth, the imagination fixes itself upon the large fortunes acquired by merchants rather than upon the saving of price to the consumers. But the gains of merchants when they enjoy no exclusive privilege are no greater than the profits obtained by the employment of capital in the country itself. . . . Commerce is virtually a mode of cheapening production; and in all such cases the consumer is the person ultimately benefited; the dealer in the end is sure to get his profit, whether the buyer obtains much or little for his money."

Besides the economical advantages derived from foreign trade it also produces moral and intellectual effects of the greatest importance. By keeping up a constant communication between widely different nations, it enables each people, by comparing its own laws, institutions and manners with those of other countries, to profit by the example or to take warning by the fate of other nations. Commerce ought also to teach nations that they do not profit by each other's misfortunes, but that each country has a direct interest in the welfare and prosperity of every other.

The strongest case which the opponents of free trade have ever made is the following:—If a nation engages in foreign trade the commodities which it exports will rise in value, while those which it imports will decrease in value.

This is evident both from *a priori* reasoning and from experience. The exported commodities will become dearer because the demand for them is increased; the imported commodities will become cheaper because their supply is increased. The principal exports of such a nation as America consist of the necessaries of life, such as wheat and other agricultural produce, in return for which it receives (say the protectionists) articles of luxury, such as rare wines and costly lace. Now it is urged that this foreign trade must be disadvantageous to the bulk of the population, because it increases the price of necessaries, and decreases only the price of luxuries. This argument does not touch the main advantage of foreign commerce: viz. such a division of labour, that each country produces those commodities for the manufacture of which it has peculiar and natural advantages. The result of protection in America is to withdraw a portion of her capital and labour from her most productive industries, in order to employ them in industries that are less productive. The argument cannot moreover be regarded as a fair statement of facts. The United States are still pursuing a policy of protection, not only in respect of luxuries but of necessaries as well. Foreign articles, whether necessaries or luxuries, are mercilessly taxed; a fine of as much as 100 and 200 per cent. being levied on some of them. Such articles as boots and foreign clothing of all kinds are subject to heavy imposts; and at the same time the exportation of corn and breadstuffs to Europe is carried on on a large scale.

An example of the effect of Protection in America. Mr. Wells, at one time Special Commissioner of the United States Revenue, issued a report by no means favourable to the opponents of free trade. Mr. Wells' views were the more striking because when he received the appointment of Commissioner of Revenue he was a strong protectionist, and he was led to change his opinions on the subject by the facts which came under his observation during his official experience. His report shewed that the tariffs imposed were so heavy as to be a most serious burden to the industry of the country. The following example shews the way in

which these tariffs depressed trade. Mr. Wells stated that "in 1869 an enterprising citizen of the North-West visited England for the purpose of contracting for an iron vessel suitable for the grain trade of the upper lakes. As foreign-built ships are not admitted on the American registry, it was proposed to take over the vessel in sections, simply to serve as a pattern, and at the same time it was intended to import skilled workmen, and to establish an iron ship-building yard in the vicinity of Chicago. But when the duties, varying from 38 to 66 per cent., on the various articles employed in the construction of the vessel came to be calculated, they were found to amount to so much that the project had to be abandoned." The whole population is taxed in the partially successful attempt to protect the interest of a few hundred American ironmasters. To such circumstances as that just narrated, the commissioner attributed the decline in American shipping which caused so much discussion a few years ago in the States. The decline in the foreign shipping trade of the United States is most remarkable. In 1875 the United States carried 31 per cent. of their foreign commerce in their own ships; in 1886 they only carried 21½ per cent. In the quinquennial period ending 1899, the proportion had slightly risen to 22·3 per cent. In 1860 the United States merchant navy ran a neck-and-neck race with that of Great Britain. In 1896 the position was entirely changed: viz.—

	TONNAGE.		CARRYING POWER.—TONS.	
	1860.	1896.	1860.	1896.
British . .	5,710,000	10,400,000	7,220,000	30,600,000
United States	5,350,000	4,770,000	7,960,000	11,850,000

In 1896 the total tonnage of the world, whether steam or sailing, amounted to 24,090,000 tons. Of this the United Kingdom with Canada owned 9,950,000 tons, or more than two-fifths. In ship-building the predominance of the United Kingdom is even more remarkable. The ship-building of the world

in 1897 was 1,570,000 tons, of which 1,050,000 were built in the British Isles. In 1898 the total was 1,890,000, of which 1,370,000 were British.[1] The necessity of relying upon foreign countries for our supplies of food has forced upon England the adoption of free trade. This necessity does not exist in America, and consequently the recognition of the advantages of free trade is delayed, but there is a very considerable body of public opinion in the United States favourable to free trade. The following extract from an American paper gives some idea of one way in which protection has increased the cost of living in the United States. "Taxes on an American when in his clothes—Hat, silk, 60 per cent.; ribbon, 60 per cent.; alpaca lining for brim, 50 cents a pound, and 35 per cent.; leather inside, 35 per cent.; muslin lining, $7\frac{1}{4}$ cents a square yard; glue, 20 per cent. Coat—cloth, 55 cents a pound, and 35 per cent. *ad valorem;* silk lining, 60 per cent.; alpaca used therein, 50 cents a pound, and 35 per cent. *ad valorem;* buttons, if worsted, 20 cents a pound, and 35 per cent. *ad valorem;* worsted braid, 50 cents a pound, and 35 per cent. *ad valorem;* velvet for collar, 60 per cent.; red worsted padding, 50 cents a pound, and 35 per cent. *ad valorem;* hemp padding, 40 per cent. Pantaloons—cassimere, 50 cents a pound, and 35 per cent. *ad valorem;* cotton used therein, 5 cents a square yard; hemp cloth for facing, 40 per cent.; metal buttons, 30 per cent. Vest, silk or satin, 60 per cent.; linen lining, 35 per cent.; silk buttons, 60 per cent. Braces 35 per cent. Under shirt—if silk, 60 per cent.; if worsted, 50 cents a pound, and 35 per cent. *ad valorem;* if cotton, 35 per cent. Drawers, the same. Shirt—cotton, 5 cents a square yard; linen for the front, 35 per cent. Buttons, 35 per cent. Boots—raw hides, 10 per cent.; tanned leather, calfskin, 30 per cent.; if patent leather, 35 per cent; soles, 35 per cent. Neckerchief—if silk, 60 per cent. Pocket-handkerchief—if silk, 60 per cent.; if linen, 35 per cent. Kid gloves—50 per cent. Pocket-knife—35 per cent. Watch—25 per cent. Silk watch-chain—60 per cent."

The relation of Imports to Exports. It is an error to

[1] Mulhall's *Dictionary of Statistics*, Part II, pp. 801–2.

suppose, as many people appear to do, that imports have to be paid for by the country receiving them in gold: all the imports which a country receives have of course to be paid for in some way, and imports in the main are paid for by exports. But in a country such as England, where imports are permanently and increasingly in excess of exports, there are other very important methods of paying for imports. It should be here remarked that the excess of imports over exports in the United Kingdom, which is said to have amounted in the aggregate to £4,000,000,000 in the years between 1860 and 1903, is not so large as it appears because of the omission, up to the year 1899, of ships and boats with their machinery from the British export tables issued annually by the Board of Trade. Economists used to state the relation of exports to imports to be that they must exchange at such a value as to produce an equilibrium, in other words that exports must pay for imports. Mr. Mill has stated this tendency thus: "The produce of a country exchanges for the produce of other countries at such values as are required in order that the whole of her exports may exactly pay for the whole of her imports." This statement appears to be at variance with facts, and it should be restated thus: "The whole of the liabilities of any country in respect of goods or services received from other countries must be balanced by an equal value of goods or services rendered to them." The reason why the United Kingdom appears to be receiving in imports more than she gives to the world as exports, is that she in part discharges her indebtedness by services of which no record is kept in the Board of Trade returns. The first and most obvious of these services is the ocean carriage of merchandise and persons, about half of which for the whole world is done in British ships. The annual earnings of the merchant fleet of the United Kingdom have been estimated by Sir Robert Giffen to amount to £90,000,000. This represents a series of services, adding value to commodities by taking them from the places where they are made or grown to the places where they are consumed. The additional value thus conferred on commodities is so immense that if the total imports of the world are compared with the total

exports of the world, it is found that the value of the imports exceeds the value of the exports by hundreds of millions; yet these are the very same goods valued at the port of departure and the port of arrival respectively. The following table shews for the three years 1891, 1896 and 1901 the aggregate imports into and exports from all the principal countries of the world:—

	IMPORTS.	EXPORTS.	EXCESS OF IMPORTS.
	Million £	Million £	Million £
1891	2099	1850	249
1896	2147	1898	249
[1] 1901	2516	2292	224

Every one is familiar with the fact that the carriage of goods has to be paid for, and that a commodity at or near the place of consumption is more valuable than the same commodity at the place where it is produced. A ton of coal, for instance, at the pit's mouth may be worth 7*s*., while the same coal in London may be worth £1 1*s*. An orange may be worth a farthing in Spain or in the Canary Islands, while the same orange may be worth 1*d*. in London. It is obvious therefore that carrying, so large a proportion of which is done in British ships, is a service for which the various countries of the world pay us by sending us more goods than we send them.

Another very important service rendered by the United Kingdom to other countries, and which places them in her debt, is the loan of capital. The inhabitants of all wealthy countries, such as England and France, have enormous sums in foreign investments. England was first in this form of enterprise, and from the time of the first making of railways on the continent of Europe, immense sums have been invested by England in foreign industrial enterprises.[2]

[1] Board of Trade Blue Book, Cd. 1761, p. 100.

[2] In the ten years 1881-90, we lent to colonies and to foreign countries a sum estimated at no less than £559,000,000; for the ten years ending 1901, the estimated amount lent was £472,000,000.

Nearly the whole of the railways in America, Argentina and India were made with British capital. Irrigation again, over which hundreds of millions have been spent, and well spent, in India and Egypt, has been carried out by means of British capital. Wherever one goes in the world one sees traces of the ubiquitous British capitalist, investing his money, for which he expects, and generally receives, an annual return. The return is not sent to this country in the form of gold or bullion, but in the form of excess of imports.

Debtor Countries and Creditor Countries. Every country is either a debtor or a creditor, a borrower or a lender. Young countries, such as the United States and the Australian colonies, poor countries, such as India and Russia, are debtor countries: they owe to other nations more than other nations owe to them; consequently their exports exceed their imports. This is not necessarily a sign either of improvidence or decadence on their part: they borrow because they could not develop their resources without borrowing. In so far as they have borrowed wisely, for industrial and agricultural development, they gain by borrowing quite as much as, if not more than the lenders gain by lending. Old and wealthy countries such as the United Kingdom and France are creditor countries; every natural resource which they are as yet known to possess is developed, and is producing wealth to the top of its capacity. No commercial enterprise which offers a fair return to capital and labour here but can command a supply of both. We not only have capital sufficient for our own industries: we are able to lend hundreds of millions to other countries; in other words Great Britain and France are creditor countries, other countries owe more to them than they owe to the other countries: their imports are accordingly permanently in excess of their exports.

It should be understood that foreign investments, during the period when they are being made, that is when capital has to be transferred from England, say to Argentina or Canada, do not increase imports; they have an exactly contrary effect, they increase English exports. The wealth that England lends to foreign countries does not go in the

form of gold or bullion, but in the form of goods. But a movement in the contrary direction is set up directly the capital invested abroad begins to bear interest; then year by year the country which is using British capital has to pay the interest which swells the volume of British imports. Though on the whole other countries owe England much more than England owes them, yet the South African War produced a counter current in the other direction. The Government raised the whole cost of the war, partly by taxation, and partly by borrowing. The combined deficits of the four years 1899 to 1903 were more than £153,000,000, most of which had to be met by borrowing. A considerable part of the money so borrowed came from abroad, and England in so far became a debtor instead of a creditor country. This checked the excess of imports, and caused an increase in our export trade, the effect of which is still making itself felt (1904). The excess of imports over exports was £101,000,000 in the first seven months of 1903, as compared with £113,000,000 and £111,000,000 in the corresponding period of 1902 and 1901.[1]

There are certain trades and professions, such as banking, bill discounting and insurance, in regard to which London is the centre, not only for the United Kingdom, but for the world. The profits on these industries in so far as they accrue in foreign countries all go to swell the excess of English imports over exports.

Summary. The imports into England are permanently in excess of the exports from England. The excess averaged during the ten years from 1893–1903, £161,000,000 a year, and has a tendency to increase. An equation in English foreign trade is reached, that is to say all accounts between England and the countries with which she trades are settled (1) by English exports; (2) by the profits due to England on her foreign shipping trade, believed to amount to £90,000,000 annually; (3) by interest due on English capital invested abroad. "The profits which could be identified as foreign for income tax purposes rose from £54,500,000 in

[1] Board of Trade Blue Book, Cd. 1761.

1891–2 to £62,500,000 in 1901–2."[1] These figures however only include foreign and colonial securities, coupons and railways, and take no account of the return on British capital invested abroad in miscellaneous industrial enterprises, an omission which, together with the profits on banking and insurance business done by London firms out of England, it may well be believed covers the comparatively small balance left unaccounted for.

So far from an excess of imports being a sign of unfavourable commercial conditions it is the exact reverse; and it would be easy for any one conversant with the general economic condition of any country to say whether its imports exceeded its exports or *vice versâ*. Every creditor country must have an excess of imports. While every debtor country, unless it is bankrupt, must have an excess of exports.

The meaning explained of such expressions as "balance of trade," "unfavourable exchange." In the days of the mercantile system it was thought a serious calamity to a country if a part of its exports consisted of coin or bullion. A country was in fact considered to have suffered a loss, from foreign trade, exactly equivalent to the value of the coin or bullion she exported. When a part of a nation's imports had to be paid for in gold or silver, "the balance of trade" was said to be against that nation, and the exchange which she had effected was termed "unfavourable." Experience has exposed the fallacy and confusion of thought of such reasoning. Gold is now exported from the countries which produce it as an ordinary article of commerce; and the rapidity of the growth and the prosperity of Australia, California and the Transvaal are notorious, and have been proportionate to the degree in which they have parted with their gold in exchange for the commodities produced by other countries. Still, tried even by this test, it is a conclusive proof that we are not paying for our excess of imports in gold, that the United Kingdom year by year imports more gold and silver bullion and specie than she exports. The average

[1] Board of Trade Blue Book, Cd. 1761, p. 102.

annual excess on the five years ending 1902 was about £7,000,000.[1]

The following chapter on Credit will explain the manner in which foreign exchanges are conducted without involving a constant export and import of the precious metals.

QUESTIONS ON CHAPTER I. *On Foreign Commerce.*

1. What is the great advantage derived from foreign trade?
2. Give examples of this advantage.
3. What is meant by Protection, and how do protectionists justify their interference with foreign commerce?
4. What would follow if protection were withdrawn from those industries which could not survive foreign competition?
5. When a native industry would cease to exist unless it were protected from foreign competition, is loss or gain inflicted on the nation at large by protecting it?
6. What large class does the protectionist quite overlook?
7. Describe the effect produced on wages by the cheapening of any of the necessaries of life.
8. What effect is produced on the accumulation of capital by decreasing cost of production?
9. Apply the arguments of protectionists to the introduction of railway travelling.
10. Give a summary of the arguments contained in the Candlemakers' petition.
11. Under what conditions will an exchange of commodities be advantageous to both countries effecting such an exchange?
12. What must be the minimum difference in the relative value of the commodities exchanged?
13. When the difference exceeds this minimum, how are the terms of the exchange determined?
14. How does foreign commerce affect the prices of exports and imports?
15. If foreign commerce were quite unchecked, what circumstances would still cause the prices of some commodities to be different in different countries?

[1] Statistical Abstract, 1903, pp. 145–155.

16. To what excess was the protective spirit carried in France before the Revolution?

17. Shew the manner in which the demand and supply of a foreign commodity are equalised.

18. What is "reciprocity"? Give an illustration of its impracticability in certain cases.

19. What determines the amount of profit realised by each of two countries effecting an exchange of commodities?

20. Who reaps the principal advantage from foreign trade?

21. What is the strongest case which has ever been put forward by protectionists?

22. What main advantage of free trade does this argument disregard?

23. Is this argument supported by facts?

24. Shew, by an example, the manner in which protective tariffs depress industry.

25. What effect is produced on the whole population of the United States by the increasing cost of living? Quote the authority for these statements.

26. What is probably the reason why England has recognised the advantages of free trade before America?

27. Describe the relation between the exports and imports of a country. Why are exports constantly in excess of imports in some countries, while in others the reverse is the case?

28. What is meant by "balance of trade" and "unfavourable exchange"?

29. Illustrate the absurdity of supposing that a country loses an amount exactly equal to the quantity of gold and silver she exports.

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1. In England there are taxes on tea, tobacco, spirits, and other imports; are these in any sense protective?

2. If there were in a village a one-armed cobbler, who made boots rather worse and much dearer than they could be made elsewhere, and if the authorities of the village, in order to encourage native industry, levied a tax on all boots not made by him, would not this be in accordance

with protectionist principles? Explain the consequences to the general well-being of the village.

3. Where in America should you say the free-trade party was the strongest, in the corn-growing States of the West, or in the manufacturing districts? And give your reasons.

4. Why is agriculture more profitable than manufactures in such a country as Australia?

5. Trace out the results that would ensue if a country possessing rich gold-fields were entirely debarred from purchasing the products of other countries.

CHAPTER II. *Credit and its Influence on Prices.*

Definition of Credit. Credit is a power to borrow. If the credit of an individual is good, it is because there is general confidence in his ability to pay, and therefore he can borrow at a low rate of interest. If the credit of an individual is bad, he is not able to borrow except at a high rate of interest, because his ability to pay is doubted. The credit of different people in the same age and country can be accurately measured by the rate of interest which they pay for borrowing. When it is said in the City article of the *Times* that the rate of interest is "$2\frac{3}{4}$ for the *best* three months' bill," it means that $2\frac{3}{4}$ per cent. per annum is paid for a loan by those in whose ability to pay there is perfect confidence; a higher rate of interest is paid at the same time by those whose ability to pay is less undoubted. This remark does not apply unreservedly to the credit of nations. "Ability to pay" of course produces its effect upon the credit of nations as well as upon that of individuals. The credit of Turkey, until the appointment of the International Commission to manage her finances in 1881, was exceedingly bad, and Turkish bonds, if they paid anything at all, paid nearly 12 per cent.; in the autumn of 1875 the Government of Turkey announced its bankruptcy by telling its creditors that only half the interest due to them would be paid in gold, and even this half was not forthcoming; some descriptions of Turkish stock were quoted at a price which, if they paid

at all, would have paid more than 50 per cent. Since that time however the excise revenues of the Turkish Government have been handed over to the Commission, who also receive the Egyptian tribute, and the proceeds of a licence tax which was established in 1884; with these resources the Commissioners have been enabled to resume the payment of interest on the Turkish debt, and Turkish securities have in consequence risen in value, yielding interest varying, according to degree of security, from $3\frac{1}{2}$ to nearly 5 per cent. The debts of some of the South American Republics yield an interest of nearly 6 per cent., while the debt of England yields about $2\frac{3}{4}$ per cent. This indicates principally the varying degree of security felt that the interest and capital of the loan are safe. But there is frequently a difference between the rate of interest prevailing in two countries which does not indicate a corresponding difference in their ability to pay. It has previously been explained that the rate of interest is not only affected by the security of property and the amount of risk incurred by the lender, but also by the position of the margin of cultivation. Hence it is not fair to infer that the credit of England is better than that of America because an English Government stock pays $2\frac{1}{2}$ per cent. whilst American Government stock pays a higher interest. Part of the difference is accounted for by the different position of the margin of cultivation in the two countries. In England money can be borrowed on a mortgage, where land and houses are given as a security, at 4 per cent., whilst in America money cannot be raised on a mortgage for less than 6 per cent. The credit of a nation cannot therefore be accurately measured by the rate of interest which it pays for loans. Although confidence in a country's "ability to pay" always produces its effect on the rate of interest, yet different rates of interest prevail in different countries whose financial prospects are equally sound, owing to the different position, in the scale of productiveness, of the margin of cultivation.

The expression "Credit is Capital" is meaningless. It is sometimes asserted that "credit is Capital." A little consideration shews that this expression belongs to the same class as "time is money." Credit has already been defined

as "the power to borrow," and it has frequently been explained that capital is that part of wealth which is set aside to assist future production; it supports the labourers and furnishes the tools, materials and shelter that their work requires. Now it is evident that a power to borrow can do none of these things. Credit will not feed and clothe labourers, nor can it furnish the implements of their industry. The power to borrow, if exerted, will procure capital, just as muscular strength will, if exerted, enable a man to carry a sack of wheat; but it is as inaccurate to say that credit is capital as it would be to say that a man's strength is a sack of wheat.

Banks. The real service which credit performs is that it enables an increased quantity of the wealth of a country to be used productively as capital. It encourages the productive employment of wealth. Scarcely any one, for instance, retains a considerable sum of money in his own keeping; people keep just sufficient money to pay their daily personal expenses; all their money above this amount is generally deposited in a bank, and is there used for productive purposes. Suppose, for instance, that Mr. *A* has an income of £1000. He deposits the whole of his yearly income in a bank, drawing it out in small sums as occasion requires. In the meantime the banker is employing a considerable part of this deposit as capital, experience having shewn that a bank need never keep in the form of money more than one-third of the sums deposited with it. Mr. *A* himself, if he lives up to his income, would never have been able to employ any part of it as capital, but the banker by accumulating a large quantity of these small capitals, is able, with advantage to all concerned, to employ two-thirds of the total amount deposited with him to assist the future production of wealth. Depositors in a bank in reality lend their money to the banker, on the condition that they shall be able to withdraw the whole or any part of their deposits at any time. In some banks depositors receive interest on their deposits, if they have been left in the bank more than a certain time. In most cases, however, the banker is considered to make a sufficient return to the depositors by taking

charge of their money, and by allowing them to withdraw any part, or the whole of it, at a moment's notice. It is evident that a bank could not exist unless the credit of the banker was good. People would not place their wealth at the disposal of a man unless they had confidence in his honesty and in his ability to pay.

Joint-stock Companies. Another way in which credit enables an increased amount of the wealth that is saved to be employed productively, is by means of joint-stock companies. Such an undertaking as a railroad requires for its construction an amount of capital such as scarcely any private individual could supply. The necessary capital is therefore subscribed by thousands of small investors. The required amount is determined by the promoters of the company; it may be assumed that this amount is £1,000,000; it is accordingly arranged to raise this sum in 20,000 shares of £50 each. Any individual, therefore, who has saved £50, and who buys one of these shares, becomes a shareholder in the railway; he is in fact a partner in a great commercial enterprise; this small capital of £50 is employed in assisting the future production of wealth, whereas if there had been no such things as joint-stock companies, it would probably have been consumed unproductively. It is evident that the success of a joint-stock company depends upon the credit of its promoters and directors. They have sometimes not deserved the confidence reposed in their honesty, but this has nothing to do with the present subject. If their credit had not been believed to be good the companies could never have been started. The existence of joint-stock companies has enabled the middle classes to invest their savings as capital, and has consequently added enormously to the wealth of the country. Schemes of profit-sharing and co-partnership such as that adopted in the South Metropolitan Gas Works (see chapter 5, section 3) render a similar service to those living on weekly wages. If such schemes are largely adopted and rest on a sound foundation of good faith and credit, they would add greatly to national wealth, and by promoting thrift cause money to be used as capital which is now consumed unproductively.

From these illustrations it is perceived that the capital of the country is practically augmented by the means of credit, because it offers great facility for the productive employment of wealth. But besides those just described there are forms of credit performing other functions, which very materially facilitate the exchange of wealth, and which produce a very great influence on the prices of commodities. The forms of credit to which we refer are bills of exchange, bank notes, cheques, and book credits.

Bills of Exchange. It was said in the preceding chapter that foreign commerce did not involve a constant exchange of gold and silver money between the two countries trading with each other. It is evident that if the English merchants who purchase French goods had to send the price of these goods in money to France, great inconvenience and risk would be incurred. The necessity of the constant transit of gold and silver money is obviated in the following way. Let it be supposed that an English merchant *A* sells £1000 worth of coal to the French merchant *B*, and that a French merchant *C* sells £1000 worth of wheat to the English merchant *D*. If there were no such things as bills of exchange, the result of these transactions would be a transit of £1000 in money from *B* (in France) to *A* (in England), and also a similar transit of £1000 in money from *D* (in England) to *C* (in France). Now it is evident that the same result could be attained without any transit of money at all, if *A*, the English seller, received £1000 from *D*, the English buyer, and *C*, the French seller, received £1000 from *B*, the French buyer. This result is affected in the following way. *B*, the French merchant, sends to *A* a written promise to pay him the £1000, and *D*, the English merchant, sends a similar promise to pay £1000 to *C*. These written promises are called bills of exchange. *A* has a bill for £1000 drawn on France, and *C* has a bill for £1000 drawn on England. If they exchange these bills both debts will be discharged.

Bill discounting. Merchants do not usually effect these exchanges themselves; they are generally undertaken by bill brokers or bill discounters. These persons undertake to

buy the bills drawn on different countries. In the case just described, *A* and *C* would not exchange their bills; *A* would sell his to a bill discounter in London, paying him a small sum as commission; and *C* would sell his to a bill discounter in Paris. Thus a London bill discounter might collect £1,000,000 worth of bills drawn on France, whilst a French bill discounter might collect £1,000,000 worth of bills drawn on England. They would then proceed to exchange the bills. The transit of money is as entirely dispensed with as if barter were the recognised medium of exchange between the two countries.

Bills of Exchange perform many of the functions of Money, and they therefore produce an effect on General Prices. Bills of Exchange are very largely used in domestic as well as in foreign commerce. It is very unusual for one merchant to pay another in money; the debt is usually discharged by means of a bill of exchange; that is, a written promise to pay at the end of a certain time. A three months' bill is a promise to pay at the end of three months, and so on. Now this bill, up to the time when it falls due, performs many of the functions of money. The person who receives it perhaps wants to make a purchase himself: we will suppose that the bill is for £1000, and that its present owner, *A*, has received it from *B*. *A* now wants to purchase £1000 worth of goods of *D*; he obtains the goods and gives to *D* the same bill for £1000 which *A* had received from *B*; at the same time *A* endorses the bill (that is, he writes his name on the back of it) as a token that he will himself pay *D* should *B* fail to do so. In a similar way the bill may be used to make any number of purchases up to the time it falls due. Every time it changes hands it receives a fresh endorsement; so that at the time when it falls due the back of a bill is sometimes completely covered with endorsements. It is evident that in such a case as this a bill performs for a time the functions of money. Up to the time that it falls due it has the purchasing power of gold and silver coin. Now it has previously been explained that any circumstance which increases the amount of money circulating in a country will, if other things remain unchanged,

increase the prices of commodities. The value (or exchange power) of any commodity is determined by an equalisation of supply and demand. If the supply is increased, the value declines in such a degree as to equalise the demand with the augmented supply. This is as true of money as of other commodities ; therefore when the supply of money in a country is increased, if other things remain the same, the value of money will decline, its exchange power will diminish, and prices will rise. It is now easy to trace the influence of bills of exchange on prices. It has just been explained that a bill of exchange is, up to the time when it falls due, a substitute for money ; the employment of bills of exchange, therefore, produces the same effect upon prices as if a corresponding addition had been made to the gold and silver currency. If all the business now transacted by means of bills of exchange had to be carried on with cash payments, one of two things must happen. Either a corresponding amount of money must be added to the currency, or general prices would decline. The use of bills of exchange has therefore either caused an increase in general prices, or it has prevented general prices from declining.

Bank Notes. The same effect is produced on prices by other forms of credit beside bills of exchange. An issue of bank notes produces the same effect upon prices as an increase in the quantity of gold and silver coin. A bank note is simply a promise to pay ; and the chief difference between a bank note and a bill of exchange is that the former is payable at any time on demand, whilst the latter is payable at some particular time specified on the bill. It is well known how useful a substitute for money bank notes provide ; their form and portability render them particularly convenient instruments of credit. A Bank of England note is legal tender, and is in this kingdom accepted as readily as gold. The notes of provincial and private banks are not legal tender, but they are accepted with the greatest confidence by those who repose trust in the credit of the bankers who issue the notes. A Bank of England note has the same purchasing power as gold because the Bank of England is compelled by law to give gold in exchange for its notes

whenever such an exchange is demanded; and every one has perfect confidence in the solvency of the Bank. All other banks are compelled by law to give either gold or Bank of England notes in exchange for their own notes. But this regulation does not compel even the most prudently managed banks to keep an equivalent in coin for all the notes they issue. It has been found that no bank need keep in cash more than a sum equal to one-third of its issue of notes. For instance, supposing the bank note circulation of Great Britain, other than that of the Bank of England, to be about £30,000,000, it may be estimated that the various banks retain in specie £10,000,000, the remaining £20,000,000 is therefore permanently added to the currency. If these £30,000,000 of notes were withdrawn, either general prices would fall or £20,000,000 in gold would have to be added to the currency. It is evident that no effect is produced on prices by an issue of bank notes if a corresponding amount of specie is at the same time withdrawn from circulation; because by such a transaction the currency is neither increased nor diminished. If, however, the issue of bank notes is increased without a corresponding withdrawal of specie, general prices will either rise or be prevented from falling.

Cheques. A cheque is a written order to a banker to pay a certain person a sum of money. If all cheques were immediately cashed by the person to whom they are payable they would produce no effect on prices. But in nearly all cases the cheque is not cashed, but is paid in, by the person who receives it, to his own bankers. Now let us trace the effect of this on the prices of commodities. Mr. *A* banks with the London and Westminster Bank, he gives a cheque for £100 to Mr. *B*, who banks with the Imperial Bank. This cheque is a written order to the directors of the London and Westminster Bank to pay £100 to Mr. *B*. Mr. *B* does not take this cheque to the London and Westminster Bank, to get it cashed, but he pays it in to his account at the Imperial Bank. In the course of the same day Mr. *C*, who banks with the Imperial Bank, gives a cheque for £100 to Mr. *D*, who banks with the London and Westminster Bank,

and Mr. *D* pays in the cheque to his account. At the end of the day the Imperial Bank has a cheque for £100 drawn on the London and Westminster Bank, and the London and Westminster Bank has a cheque for £100 drawn on the Imperial Bank. These banks therefore exchange the cheques, and the transit of specie from one bank to another is entirely dispensed with.

The Clearing House. An exchange of cheques and bills drawn on the different banks takes place daily in London at the clearing house. To this place the bankers send all the cheques and bills which have been paid in to their banks during the day, and exchange them for cheques and bills of a corresponding value drawn on their own banks. In this way more than £10,027,000,000 of cheques were exchanged in the year 1902, whilst to effect this exchange no specie whatever was required.[1] Formerly after the exchange of cheques all differences were settled by cash payments; but this custom is now discontinued and the differences are settled by an account kept at the Bank of England called "the account of the Clearing Bankers." The balance for or against each bank on the day's transactions is entered in this account, and thus one entry per diem suffices for each bank. If, for instance, the London and Westminster bank holds £100,000 of cheques drawn on the London and County Bank, while the London and County holds £110,000 of cheques drawn on the London and Westminster, the difference between them

[1] The amounts cleared at the Bankers' Clearing House have shewn remarkable progress during the last quarter of a century. The average annual amount for the following quinquennial periods was as follows:—

1875–9, £5,114,000,000
1880–4, £6,020,000,000
1885–9, £6,410,000,000
1890–4, £6,789,000,000
1895–9, £7,981,000,000

For the three separate years 1900–2 the amount was—

1900, £8,960,000,000
1901, £9,561,000,000
1902, £10,029,000,000

would formerly have been settled by a cash payment of £10,000 by the London and Westminster Bank to the London and County Bank. Now however even this comparatively slight use of cash, as between the different banks, is dispensed with in the manner just referred to. If, on the total of the day's transactions with the other clearing bankers, the London and Westminster draws upon them £1000 more than they draw upon it, the London and Westminster is credited with £1000 in the account of the clearing bankers. Besides the bankers' clearing house in London, the railway companies also have a clearing house of their own, where their indebtedness one to another is discharged in the manner described above.

It is evident that by the use of cheques and by the operations of the clearing house the circulation of the country is virtually increased by a very large amount, for buying and selling represented by many thousand millions of pounds takes place annually in the United Kingdom by means of cheques, without the exchange of a single farthing of money. Hence if the same amount of buying and selling went on, and cheques, or some equivalent form of credit, ceased to be used, the value of money would rise and general prices would decline ; because gold and silver coin would be required in a great number of transactions which are now carried on by means of cheques.

Book Credits. Book credits can be readily explained. Suppose that an ironmonger *A* buys £50 worth of coals from a coal-merchant *B*, and that *B* buys £50 worth of ironmongery from *A*. Instead of exchanging bills of exchange or cheques for £50, *A* debits *B* with £50 in his ledger, and *B* does the same to *A*. Seeing, then, that each owes the other £50, they agree to cancel each other's debt, and the use of money is thus dispensed with.

Credit influences Prices, and not the particular form which Credit assumes. In describing these different forms of credit it should be borne in mind that it is credit which influences prices, and not the particular form credit may assume. A bank note, a cheque, or a bill of exchange is not credit, it is simply a declaration of the existence of credit.

Every form of credit which dispenses with the use of money produces an effect on prices.

The purchasing power conferred by Credit. But there is another way in which the employment of credit produces temporarily very great influence on prices. Credit very greatly increases the purchasing power of every one who employs it. If all commodities were bought and sold for money, trade would be very seriously contracted. Suppose, for instance, that a cotton-spinner desired to make a large purchase of raw cotton. He might be aware that his supply of ready money was not sufficient to effect the purchase : he therefore gives a bill of exchange to the producer of the cotton, payable at the end of three or six months ; if at the end of that time he is still unable to pay, he will be able, if his credit is good, to renew the bill on paying a certain percentage. It is no doubt true that the purchasing power conferred by credit may be abused by people incurring liabilities which it is highly improbable they will ever be able to meet ; but without credit, speculation would be nearly impossible, and consequently the number of purchases would be greatly reduced. Since therefore credit enables a great many purchases to be made which never could take place if the payments had to be made with ready money, it is evident that credit produces an increased demand for commodities. It has frequently been proved that any circumstance which increases the demand for commodities tends to increase their price. Hence credit, by increasing the purchasing power of individuals, tends to increase the price of commodities.

Credit produces the greatest Effect on the Price of those Commodities the Supply of which is limited. It is true that the price of those commodities the supply of which can be increased tends always to approximate to the cost of production ; but speculative purchases are made with the greatest frequency in those commodities the supply of which is, from exceptional circumstances, expected to be curtailed. In such cases the price of the commodity is regulated in the same way as the prices of those commodities the supply of which is absolutely limited. Thus, on the eve of the Russian war in 1854, it was known that during

the war the importations from Russia of tallow, hemp, etc. would be stopped. Large speculative purchases of these commodities were therefore made with a view to the rise in price which would be occasioned by the reduced supply. Every one of these speculative purchases tended of course to raise the price of Russian goods. In the year 1869 large speculative purchases of corn were made by several corn-factors, because owing to the cold and wet weather in May and June it was thought that there would be a bad harvest, and that consequently corn would be dear. These speculative purchases tended to raise the price of corn; and had the expectation of the speculators been fulfilled they would have realised large fortunes. Let us see, however, what really took place. These factors gave bills of exchange for the corn they purchased, expecting that by the time the bills became due they would have sold the corn again at a higher price, or that they would be able to renew the bills in hopes of realising yet larger gains. But although the wheat crop in England was very bad, there was an exceptionally large yield in America; the price of wheat in America was extremely low, and America immediately began exporting large quantities of wheat to England; these circumstances caused the price of corn steadily to decline. Several of the speculators were unable to meet their engagements, and many large failures ensued.

A Commercial Panic. If credit can be easily obtained it is difficult to say how great its influence may be on prices. When, however, in consequence of credit having been given too freely, prices become unduly raised above cost of production, the expectations of speculators are not fulfilled, and a large number of merchants are unable to redeem their bills; a commercial panic takes place, and credit is for a time almost entirely suspended. A crisis of this kind always involves many merchants in ruin, for they are unable, owing to the suspension of credit, to renew their bills. In consequence of the panic, traders will not accept bills of exchange; bank notes and gold become for a time in great demand; prices therefore rapidly fall, possibly as much below the cost of production as they were previously above

it. Hence it is seen that when the purchasing power of credit is abused, and prices are forced up far beyond their natural rate, a commercial panic is very likely to ensue, during which credit will be as difficult to obtain as it was before carelessly granted.

The Bank Charter Act of 1844. In order to prevent the abuse of credit, and, it was thought, to ensure the community against the great loss and inconvenience of commercial panics, the Bank Charter Act of 1844 was passed. The promoters of this Act evidently thought that bank notes were the most important of all the instruments of credit, and that it was by their means that the purchasing power of speculators was increased. The Act accordingly was devised with the view of restricting the circulation of notes. The framers of the Act considered that every bank ought to have an equivalent either in bullion or in property for its issue of notes. Thus the Funds, and other securities possessed by the Bank of England, amounted to about £16,000,000. The Act therefore decreed that if the note circulation of the Bank of England exceeded the value of the securities held by the Bank, the governors should be compelled to keep an equivalent to the excess, either in coin or bullion. The Act also compels the governors to publish a weekly statement of the accounts of the issue department; these accounts show that the property of the Bank in the Funds or in gold is equal in value to the whole of the notes issued. The statement for the week ending Friday, February 19, 1904, may be quoted as an example.

ISSUE DEPARTMENT.

Notes Issued	£50,983,980	Govt. Debt	£11,015,100
		Other Securities ...	7,434,900
		Gold Coin and Bullion	32,533,980
	£50,983,980		£50,983,980

The Bank Charter Act also prevented other banks from increasing their issue of notes, and provided that no bank established after the passing of the Act should be allowed to issue notes. The effect of the Act has been to prevent the inflation of the currency by an undue issue of bank notes.

Bank of England notes are in this country legal tender; that is to say, all debts may be legally discharged in Bank of England notes. A creditor can legally claim to be paid either in coin or in Bank of England notes; he is not compelled to accept the notes of any other bank. The Bank of England is bound by law to give gold, on demand, in exchange for its own notes: and the Bank Charter Act gives an absolute guarantee to the public that the Bank shall always be able to fulfil this condition. By the regulations of this Act, after the Bank has issued an amount of notes equal in value to its funded property it can issue no more without placing in the coffers of the Bank an amount of coin or bullion corresponding in value to the sum which the notes represent. The Act therefore ensures that there shall be no inflation of the currency through an excessive issue of Bank of England notes, and in this way it provides a guarantee for the convertibility of the notes of the Bank. The whole of the credit system of this country centres in the Bank of England. Every country banker keeps an account with a London banker, and all the London bankers keep accounts at the Bank of England. The importance, therefore, of giving a legal and tangible guarantee for the convertibility of Bank of England notes can hardly be exaggerated. At the time of the passing of the Bank Charter Act in 1844, many of its supporters thought it would have the effect of preventing commercial panics. Experience has not justified this expectation. Panics are caused by a collapse of credit following a period of over-speculation. The Act does not have any effect in checking over-speculation on the part of merchants and others. The instruments of credit with which large speculative purchases are made are not bank notes but bills of exchange. Therefore the operation of the Act during times of security does not limit the purchasing power of speculators. When a panic ensues, there is a general desire to discount bills; money is at a premium; every one who owns bills of exchange is anxious to change them for money, on account of the general insecurity which prevails. Hence during a panic the Bank is urged to discount an unusually large number of bills, and the rate of discount rapidly rises. Now,

on such an occasion, the Bank Charter Act, by restricting the issue of bank notes, restricts the accommodation the Bank is able to give ; and on three occasions since its passing, during the panics of 1848, 1857 and 1866, the Act has been temporarily suspended, and an issue of bank notes not represented by gold was authorised. It is obvious that these suspensions of the Act are in themselves highly undesirable ; the uncertainty whether the Act will be suspended or not, and speculation as to the exact moment when the suspension will be authorised, adds another element of excitement to the general frenzy which prevails during a panic. Since the last suspension of the Bank Charter Act in 1866, the policy of the Governors of the Bank has been modified in the direction of keeping a larger reserve of gold coin and bullion. The whole credit system of Great Britain is built up on the stability of the Bank of England ; and it is now recognised by the Governors of the Bank that they must keep a larger reserve in the proportion to their liabilities than is necessary in ordinary banks.

Convertible and Inconvertible Paper Currency. It has frequently been stated that in this country bank notes can always be exchanged for gold. It is the law of the country that a private bank should always give gold or Bank of England notes, on demand, in exchange for its own notes ; and that the Bank of England should always give gold, on demand, in exchange for its notes. This regulation makes ours what is called a "convertible paper currency" ; that is to say, it can be exchanged at any time for gold. In some other countries, Russia for instance, there is an "inconvertible paper currency" ; that is to say, the notes are not convertible into money on demand, and the paper currency is depreciated, that is, a paper *rouble* is worth less than a silver *rouble*. In exchange for a sovereign the English traveller in Russia would get nearly six and a half silver *roubles ;* but he would get ten paper *roubles ;* because the paper currency of Russia is depreciated by more than 33 per cent. A silver *rouble* is worth 3*s.* 2*d.* ; whilst a paper *rouble* is worth only about 2*s.* No injustice is done to any one by an issue of inconvertible notes if they are not made

legal tender, because then no one need accept them who would rather be paid in gold. There are, however, always many dangers connected with the use of inconvertible notes. There is, practically, no limit to their issue, and such enormous sums may be by their means added to the currency as seriously to disturb the finances of the country, and to undermine the credit of the Government. The extraordinarily large issue of these inconvertible notes in America during the war caused a disparity in value between the gold and the notes, because it was not confidently believed that the Government would be able to redeem the notes. Gold was at a premium, and the notes, or green-backs as they were called, were at a discount. This disparity rapidly diminished as the United States began to recover from the effects of the civil war; and it has now entirely ceased, because by resuming specie payments the paper money of the United States has become a convertible currency. Once during the civil war £100 in gold exchanged for £180 in notes. In Jan. 1870 £100 in gold exchanged for £120 in notes, and in July 1871 £100 in gold exchanged for £112 in notes; and it remained at about this figure until shortly before the resumption of specie payments. The large issue of these notes in America had a very great influence in raising prices in that country. The loss of credit sustained by the American Government by too large an issue of inconvertible notes produced a disparity in value between gold and green-backs, and this circumstance brought into existence a class of speculators whose operations were most detrimental to the interests of legitimate industry. These people speculated in gold, that is, they treated gold as an ordinary article of commerce, buying up large quantities of it in hopes of increasing its value.

The Gold Ring of New York. The speculations of the Gold Ring of New York became famous all over the world in the autumn of 1869. The members of the Gold Ring conspired together to buy up all the gold in the country, and all the gold cheques. (The latter were instruments of credit in the form of cheques, and payable in gold coin, not in green-backs.) These large purchases

of gold began to produce effect in September 1869, when the members of the Ring held nearly all the gold in New York; the amount owed to them being estimated at 100,000,000 dollars. As the gold owing to them was paid in, they stored it away, and the value of the gold began rapidly to advance. The gold speculators thought that they would be able to force up the value of gold 100 per cent. The only thing which they feared would mar their designs was a sale of gold by the Government. Against this contingency they endeavoured in vain to protect themselves; they therefore were obliged to be content with the hope that they would raise the price of gold so quickly, that there would not be time for the Government to suspect the plot. Their expectations were very nearly realised. In one morning before twelve o'clock the value of gold rose from 130 to 160. At twelve o'clock the Secretary of the Treasury ordered a sale of four millions of Government gold; the plot of the Ring was frustrated, and in eight minutes the value of gold fell 12½ per cent. At twelve o'clock it was at 160, and at eight minutes past twelve it was at 140; in nineteen minutes more the premium was only 33. (*Fraser's Magazine*, Jan. 1870.) It is not necessary to dwell upon the injury inflicted upon legitimate industry by the possibility of such occurrences as that just described. It casts a hazardous uncertainty over the transactions of every merchant; and all business partakes more or less of the nature of gambling.

The Cotton Ring 1903—4. In the autumn of 1903 a Ring was formed in the United States for quietly buying up all the available supplies of cotton with the object of forcing up its price. The speculators had anticipated a serious shortage in the cotton crop, and the actual shortage was even more marked than they had expected. This of course aided their designs. The price of cotton advanced by leaps and bounds, till by December 23, 1903, its price in Lancashire was higher than it had been at any time since the cotton famine caused by the American Civil War. Severe distress prevailed among the cotton operatives. About the middle of March 1904 the failure was announced of the chief

speculator whose operations had forced cotton up to famine prices. A scene of wild excitement was enacted on the New York Cotton Exchange and prices fell immediately and rapidly. The man who had been the chief actor in this drama was a few years before a buyer for a cotton firm, at a moderate salary. When he devised the scheme of making a ring or corner in cotton, he used his credit to its utmost extent to make the necessary purchases; he was also of course aided by his previously acquired knowledge of the markets and of the chief sources of supply all over the world. Such transactions add nothing to the wealth of the world, they are pure gambling : all that such a man gains some one else loses. He became a millionaire, was referred to in newspapers as "the cotton king," and his gains brought the sharp pinch of want into thousands of families of cotton operatives in Lancashire and other parts of the world. The news of his bankruptcy was hailed with satisfaction. In the words of a daily paper : "There was great rejoicing on the Manchester Exchange at Mr. Sully's suspension . . . the general feeling is hopeful . . . prices were from 31 to 38 points down."

The influence of Credit on General Prices is beneficial. Where credit is kept within legitimate bounds, there is no doubt that its influence on prices is beneficial to the general interests of the community. For the use of credit tends to prevent those fluctuations in general prices which are always so disastrous to production, owing to the uncertainty which they cast over commercial transactions. The manner in which credit tends to prevent fluctuations in general prices may be perhaps best described by tracing the operation in this direction of bills of exchange. It has often been explained that the more buying and selling there is, the more money is required ; and, if no more money or substitute for money is forthcoming, prices must decline. With every increase of buying and selling a direct tendency is exerted to increase the number of bills of exchange. If a merchant doubles his buying and selling, he will be sure to give and receive a far larger number of bills of exchange. Hence every increase in commerce produces

spontaneously an increased use of credit. A corresponding influence is exerted when trade declines, for when buying and selling are restricted, a smaller number of bills of exchange is employed. If it were not for the use of credit every fresh development of commerce would produce a decrease in general prices, and prices would rise during periods of stagnation in trade. The elasticity of credit thus has a very beneficial influence in preventing great fluctuations in general prices, although in isolated cases the use of credit sometimes produces the most rapid variations in the price of a commodity.

The Direct Economy of a Paper Currency. There is one more advantage derived from the use of credit, which has not been noticed. It has been pointed out that the paper currency of any country forms a more or less complete substitute for money. If bank notes, cheques and bills of exchange ceased to be used, a much larger quantity of gold and silver coin would be required. Hence there is a direct economy in the employment of these instruments of credit, because a comparatively worthless substance like paper is used as a substitute for the highly valuable commodities, gold and silver. The material of which a Bank of England note for £1000 is composed does not cost as much as a farthing; its intrinsic value is inappreciably small, but owing to the purchasing power which credit confers upon it, it is as useful to its owner as 1000 sovereigns.

The Position of London as the Banking Centre of the World. The degree to which London had become the banking centre of the world was brought out in a very interesting way by Mr. F. Schuster, Vice-President of the Institute of Bankers, in an address in July 1903, and again in a paper read before the Institute of Bankers in December of the same year. He argued that the International position of London as the centre of the world's money market was largely dependent on her Free Trade policy, and because our ports and our doors were open to the trade of the world.

Mr. Schuster said, "A bill on London is the recognised medium of settling international transactions, and is made use of in all parts of the world." . . . "There was always a

seller because goods were shipped here ; there was always a buyer because goods or services were obtained from here, because our ports were free and because our doors were open to the trade of the world." . . . "I really think you must have lived, or at least travelled, in foreign countries, to realise to what extent this bill on London enters into daily commercial life in all foreign countries. Not only in the banks abroad but in the offices of most leading merchants, the dealing in such bills is of constant occurrence ; and the names of London bankers and merchants are as well known in the important commercial towns all over the world as amongst ourselves." Mr. Schuster pointed out that use of the bill on London as an international medium of exchange was not confined to commercial transactions in which England has a direct share: "The China merchant who sells tea to Russia or Germany or silks to the United States, will probably obtain payment through the medium of the London money market, and equally the German merchant who sends his goods out to China. It is needless to multiply instances ; they may be found amongst almost every article of trade ; the coffee that is shipped from Brazil into France or Italy, the cotton from New Orleans to Poland, sulphur from Sicily to the United States, and agricultural machinery from the United States to the River Plate, all these trades find their Clearing House in Lombard Street. This applies not only to goods but to securities also. If a Dutch capitalist invests his money in an American Railway, he will probably complete the purchase by payment in London ; when the United States paid Spain for Cuba, it was through London that the transaction was settled, and the same applies to the Chinese payment to Japan at the close of their war." This is not due solely or even mainly to the honourable reputation of the bankers and merchants of London. . . . "The banker who buys a bill on London, say at Valparaiso, does not buy it because he wants the gold ; though he knows that if he has no other use for the bill, he can obtain gold for it . . . but he buys the bill because he knows he always finds a ready market for it, he can always sell it to a merchant, in his own place or in some other country, who requires it, in order to pay for goods or services

rendered to him by England, or to some Government which has to remit it for payment of interest. There is an absolutely free market, because there is always a supply and always a demand, and that really in every part of the world. . . . But it is owing to our first having established a trade with all these countries, a trade more important than each carries on with other countries, that ours has become the supreme money market. It has been said that trade follows the flag, but more surely can it be said that banking follows trade, and if our trade for any reason whatsoever were to be restricted, were to be confined within narrower channels, then with absolute certainty others to whom this trade would fall would oust us from our supreme position in the international money market. What a disturbance of that position would mean it is almost impossible to conceive."

QUESTIONS ON CHAPTER II. *Credit, and its influence on Prices.*

1. What is credit?
2. What is the test of the credit of an individual or of a nation?
3. What other circumstance besides "ability to pay" produces different rates of interest in different countries?
4. Why is it inaccurate to assert that credit is capital?
5. Explain the nature of the service which credit renders to the production of wealth.
6. How do banks promote the productive employment of wealth?
7. How do joint-stock companies promote the productive employment of wealth?
8. Shew that the existence of banks and joint-stock companies depends upon credit.
9. What are bills of exchange, and in what way do they facilitate the exchange of wealth?
10. What is meant by discounting a bill?
11. Explain the manner in which a bill performs the functions of money.

12. What is endorsing a bill?

13. What effect does credit, in the form of bills of exchange, produce upon prices?

14. Why does credit tend to raise the prices of commodities?

15. What would be the consequence did bills of exchange or some similar instruments of credit cease to be used?

16. What is a bank note?

17. Wherein does a bank note differ from a bill of exchange?

18. Why have Bank of England notes the same purchasing power as gold?

19. How do bank notes influence prices?

20. What are cheques, and how do they provide a substitute for money?

21. What is the Clearing House?

22. State the annual value of the cheques exchanged in the London Clearing House.

23. What are book credits, and how do they obviate the exchange of coin?

24. How does credit increase the purchasing power of individuals?

25. What effect has this increased purchasing power on prices?

26. On the price of what class of commodities does credit produce the greatest effect?

27. What is the cause of commercial panics?

28. What effect do they produce on credit?

29. What was the object of the Bank Charter Act?

30. What are the provisions of the Act?

31. What is the real effect of the Act?

32. How often and on what occasions has the Bank Charter Act been suspended?

33. What has been the effect of the suspension of the Act?

34. Name the great service guaranteed by the Act.

35. What is meant by a convertible and an inconvertible paper currency?

36. What are the dangers connected with an issue of inconvertible notes?

37. Describe the operations of the New York Gold Ring and of the Cotton Ring of 1903–4.

38. Explain the manner in which credit where legitimately employed tends to prevent fluctuations in general prices.

39. How is a direct economy involved in the use of paper money?

40. Describe the position of London as the banking centre of the world.

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1. Does a man who forges a bank note add to the wealth of the country?

2. Am I wicked for having £1000 at my banker's and not using it?

3. Would a banker make himself poorer if he burnt one of his own £1000 notes?

4. At the State Bank of Russia there is every winter, after the peasants have paid their taxes, a great bonfire made of the soiled and greasy paper *roubles*. Is this a waste of the wealth of the country?

5. Suppose that through scientific discoveries or any other cause, England could be made capable of supplying everything which her population required, what would be the effect on the position of "bills on London" as international instruments of credit?

CHAPTER III. *On Taxation.*

The Necessity of Taxation. The legitimate functions of Government are generally admitted to be national defence, the protection of life and property, and the maintenance of the equal freedom of all. These functions cannot be performed without incurring a considerable expense. To meet this expense taxation is necessary; great interest has always been felt in the questions, how taxes should be levied and on what classes they should fall. It has of late years been

rightly considered that every one who benefits by the protection which such institutions as the army and navy and the constabulary afford, should contribute to defray the expense which their maintenance necessarily incurs. In feudal times this principle was not recognised. There is no doubt that one of the immediate causes of the French Revolution was the immunity from taxation enjoyed by the French nobles and clergy. The whole weight of taxation was thus thrust on the poorer classes, who were not allowed any voice in the management of the national finances. At the present time the principles of justice are not so grossly violated; no class is allowed to enjoy immunity from taxation, but rates and taxes are now levied from all classes indiscriminately; no exemption from taxation is permitted to any one on the ground that he does not approve of the object to which the money raised by taxation is devoted. For instance, a part of the national revenue of this country is expended in providing secret service money, and in paying large salaries and pensions to those who possess sinecure offices. However strongly individuals may object to this expenditure of public money, they are obliged to contribute as much to the revenue as if they most warmly approved it. There is practically no injustice in this; at least so far as regards those persons who possess the privilege of parliamentary representation.

Adam Smith's Four Canons of Taxation. In Adam Smith's *Wealth of Nations* he laid down four canons of taxation, the due observance of which secures minimum hardship to the taxpayer and maximum revenue to the State. These four canons are too long to be here transcribed in full. The following is a summary of them:—

1st, Every subject ought to contribute to the revenue a sum proportionate to the income which he enjoys under the protection of the State.

2nd, Taxes ought to be certain, not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought to be clear and plain to the contributor and to every other person.

3rd, Every tax ought to be levied at the time and in the

manner in which it is most convenient for the contributor to pay it.

4th, Every tax ought to be so contributed as both to take out and keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the State.

The application of the First Canon. The first of these canons cannot be observed in respect to each individual tax. It would be impossible to adjust each tax in proportion to the means of the taxpayer, or his ability to pay. For instance, a family of six persons who had only just sufficient income to live on, would probably consume more tea than a wealthy family of half the size. The poorer family therefore pays much more duty on tea in proportion to its income than the wealthy family. It is obviously impossible for any Government to provide against cases of this sort. If it were attempted, thousands of Government officials would have to be employed in the inspection and investigation of special cases, and probably the whole amount raised by the tax would be consumed in paying the salaries of these officials. Thus in attempting to carry out Adam Smith's first canon, the Government would be led into a flagrant violation of his fourth canon. The equality of taxation is best preserved, not by attention to one particular tax, but by endeavouring to make the aggregate amount of taxation paid by different classes of persons proportionate to the incomes they enjoy. Thus in the case just noticed, though the poor family pays more duty on tea in proportion to its income than the rich family, it would pay less as income-tax, and less in duty on all articles of luxury, such as wine and spirits. In this way a rough kind of equality is preserved.

The application of the Second Canon. Adam Smith's second rule, that taxes ought to be certain and not arbitrary, is of very great importance. When traders are uncertain how much duty they will have to pay on the commodities in which they deal, an air of uncertainty and speculation is thrown over commercial transactions ; men depend more on their luck than on their sagacity and prudence, and trade becomes a gigantic system of gambling. The violation of

this rule is the great disadvantage of *ad valorem* duties on imported commodities in comparison with duties of a fixed money value.

The Third Canon. The third rule is obviously necessary to ensure the minimum of hardship to the tax-payer. If taxes are levied at a time which is unnecessarily inconvenient to the tax-payer, an injury is inflicted on him without any compensating benefit to the community at large. All taxes on commodities are really paid by the consumer, because they form part of cost of production. The consumer therefore pays the tax at a time when it is convenient to him to do so, viz. when he makes the purchase: if it were an inconvenient time for him to pay the tax he could abstain from purchasing the commodity. Taxes on commodities are, however, in the first place paid by the seller. Thus if a man buys a pound of tea, a part of the price is the duty which is levied by the State on this commodity. The retail trader has already paid the duty when he purchased the tea. If he had had to pay for it in ready money, it might have been an extremely inconvenient time for him to pay the tax, but he probably effected the purchase with a bill of exchange for three or six months; at the end of this time he will have sold the tea to his customers, and thus have obtained the means to redeem his bill. "A tax on the rent of land, or of houses, payable at the same time at which such rents are usually paid, is levied at a time when it is most likely to be convenient for the contributor to pay; or when he is most likely to have wherewithal to pay." (Adam Smith.) The violation of the second and third canons of taxation was one of the chief sources of misery to the inhabitants of Bulgaria and Bosnia as long as they were under the government of Turkey. Travellers in those provinces frequently saw luxuriant crops of agricultural produce rotting on the ground because the cultivators were not allowed to remove them until after the officer of the farmer of the taxes had made his visit to assess the amount of taxation to be paid. The amount thus assessed was uncertain, and the period of the assessment was often so long deferred as to render the crop almost worthless.

The Fourth Canon. The utility of Bonding Houses. The fourth rule is intimately connected with the third. If a tax is levied at a time when it is inconvenient for the contributor to pay, it is nearly sure to take much more from the pockets of the tax-payer than it yields to the revenue of the State. When the inconvenience of paying a particular tax is obviated by special arrangement, the discrepancy between the amount yielded to the State and that taken from the tax-payer is diminished. Thus if a merchant who imports taxed commodities does not wish to sell them immediately, he can place them in a bonding house. As long as they remain in bond he pays no duty upon them. They can remain in bond until they are sold; the merchant therefore pays the duty at a most convenient time to himself, viz. at the time that he sells the commodities and is in receipt of their price. Let us see what influence is thus produced on the price of commodities. Suppose a wine-merchant imports £1000 worth of wine, and that the duty on the wine is £500. He places the wine in a bonding house, where it remains six months, when it is sold. If the wine-merchant makes a profit of 20 per cent. per annum on his capital, this wine will be sold for £1600. This will be composed of the following items :—

Original cost of wine	£1000
10 per cent. six months' profit on wine-merchant's outlay	100
Duty on the wine	500
	£1600

Now if the wine-merchant had had to pay the duty directly the wine arrived in the dock, its price, after six months, would be £1650 instead of £1600; because the merchant would have employed £500 more capital on which he would expect to receive interest at the rate of 20 per cent. per annum. The items of the price of the wine will then be as follows :—

Price of wine, including duty	£1500
Wine merchant's profit of 10 per cent. for the six months on this outlay	150
	£1650

The purchaser of the wine would therefore pay in consequence of the duty £50 more than reaches the revenue of the State.[1]

Protective Taxes on Necessaries violate Adam Smith's Fourth Rule. They take out and keep out of the pockets of the people far more than they yield to the revenue of the State. This is one of the very weighty objections to the proposed revival of protective taxes on food brought before the country in 1903, the chief items of which were a duty of 2*s.* a quarter on foreign imported corn except maize ; a corresponding tax on flour ; a 5 per cent. duty on foreign meat, except bacon ; a 5 per cent. on foreign dairy produce, and an average 10 per cent. on all foreign manufactures, a preference on all items to be given to the products of British colonies. These taxes, if adopted, would cause a rise in price in the United Kingdom of all corn, flour, meat and dairy produce, whether home, colonial or foreign grown, as long as we required any of these articles from foreign countries. Financial experts have calculated that they would bring in to the revenue a gradually diminishing sum of £8,000,000 a year, and would provide an annual subsidy for the Colonies of £2,500,000; but that the total cost to the tax-payers, that is the general body of consumers throughout the United Kingdom, in consequence of the increased price of necessaries, would be at least £35,000,000, and might be £50,000,000 per annum. That this is no over-estimate can readily be believed by those who remember that a tax of ½*d.* a lb. on

[1] It has been objected to this statement that the State loses by this transaction all that the consumer gains ; that if the duty had been paid directly the wine was imported, the State would have had the £500 six months sooner, and could thus have gained the six months' interest on that sum. But this argument assumes that the State can lay out its money at as high an interest as the private merchant. We have estimated the wine-merchant's annual profits to be 20 per cent. The State could not obtain more than 3 per cent. Half a year's interest on £500 at 3 per cent. per annum is £7 10*s.* Therefore, though the State might gain this amount if the duty had been paid six months earlier, the consumer would in consequence have to pay the £50 extra for his wine, out of which sum the State would only benefit to the extent of £7 10*s.* £42 10*s.* would have to be paid in consequence of the tax more than ever reaches in any shape the revenue of the State.

sugar, put on for Revenue purposes, brings in nearly £7,000,000 annually to the Exchequer. To raise the price of all meat, flour and dairy produce except maize and bacon, as well as that of nearly all manufactured articles, may well cost £45,000,000 to £72,000,000 a year.

Taxes on Raw Materials. In accordance with Adam Smith's fourth rule, taxes on commodities should not be levied on raw material, but on manufactured goods. If, for instance, it were considered desirable to put a tax on cotton, the tax should not be levied on raw cotton, but on the manufactured material. Cotton in the process of manufacture passes through the hands of a considerable number of traders. If the tax is levied on the raw material, each one of these different traders has to pay the tax, and the interest on the outlay of him of whom the purchase is made. If *A*, the importer, pays £1000 in duty on cotton, he expects when he sells it to *B* to have the ordinary rate of profit, say 10 per cent., on this outlay. *B* therefore pays £1100 in consequence of the duty, and when he sells it to *C* he expects 10 per cent. interest on this £1100; *C* therefore pays £1210. Every time the material changes hands the amount paid in consequence of the duty increases at compound interest, until when it reaches the consumer, who really bears the burden of the tax, the amount added to the price of the commodity in consequence of the tax may be double the sum which is received by the State treasury. In order, therefore, to carry out Adam Smith's fourth rule, commodities ought to be taxed as nearly as possible at the time when they are purchased for consumption; for the burden of the tax being really borne by the consumer, he ought not to be made to pay the interest on the additional outlay (caused by the tax) of the numerous merchants through whose hands a commodity passes in process of manufacture. The provision in Mr. Gladstone's budget of 1880 to abolish the malt tax and substitute for it a tax on beer, was quite in accordance with Adam Smith's fourth canon.

Direct Taxation on Commodities is impracticable. Some have thought that the interest of the consumer would be best protected if the taxes on commodities were collected in

the shops where they are sold. For instance, that if a woman went into a shop to buy a pound of tea, the shopkeeper should say the price of the tea is 2*s.* and the tax is 6*d.* But this plan, in attempting to carry out Adam Smith's fourth rule, would inevitably violate it more completely than it is violated by the present system. Armies of Government officials, whose salaries would probably equal, if not exceed the whole amount yielded by the tax, would have to be constantly employed in looking over shopkeepers' books, and in ascertaining that the right amount of duty had been handed over by the shopkeepers to the State. Even this great expenditure would probably be powerless to prevent some of the shopkeepers evading the yielding up of the duty. To ensure economical collection a tax should be levied at a time when the commodity is not dispersed amongst a large number of retail tradesmen, but when it is amassed in large quantities in the warehouse of a wholesale merchant. The means of evading the tax are in this way diminished.

The cost of collecting Taxes should be as far as possible reduced. There is no doubt that Adam Smith's fourth rule might be much more strictly observed if strenuous efforts were made to reduce the cost of collection of some of the taxes. The great importance of cost of collection in judging of the practical desirability of levying any particular tax is obvious. Almost every year when the provisions of the Budget are discussed proposals are made in the Press and elsewhere for levying new taxes on articles of luxury, such as fans, or photographs. The objection to taxes of this description is that the amount yielded by them would be insignificant compared with the cost of collection. A number of fanciful taxes of this kind existed in Great Britain in former years; but they have been for the most part abandoned, mainly on account of their cost of collection.

The incidence of Taxation. Direct and Indirect Taxation. Before proceeding to an explanation of the nature of special taxes, such as the income-tax and the land-tax, it will be well to point out what is meant by the incidence of taxation, and the difference between direct and indirect taxation. "A direct tax is one which is demanded from the

very persons who, it is intended or desired, should pay it. Indirect taxes are those which are demanded from one person in the expectation and intention that he shall indemnify himself at the expense of another: such as the excise or customs" (J. S. Mill's *Principles of Pol. E.*, vol. II. p. 404). The incidence of taxation is borne by the person out of whose pocket the tax really comes. For instance, the incidence of taxes on commodities is borne by the consumer, because, although the tax is, in the first place, paid by the manufacturers or importers, it increases the price of the commodity, and is finally paid by the consumer. The incidence of poor rates (as far as agricultural land is concerned) is borne entirely by landowners, for though the rates are levied on the farmer, they reduce the rent of the landlord. If the landlord paid the poor rates the farmer would pay more rent. Though generally paid by the farmers, the poor rates in reality come out of the landlords' pockets. The incidence of all assessed taxes, such as the dog-tax, the tax on carriages, livery servants, armorial bearings, and, in most instances, the income-tax, is upon the person on whom the tax is in the first place levied. A tax is called indirect when it is levied on one person, whilst the incidence of the tax is on another. The incidence of a direct tax is upon the same person from whom the tax is in the first place levied. Taxes on commodities are therefore indirect, whilst assessed taxes, and, generally speaking, the income-tax, are direct.

The Income-Tax. The English income-tax is an impost of so much in the pound levied on incomes over £160 per annum. For instance, if the income-tax is 6*d.* in the pound, every one in receipt of an income of £1000 a year has to contribute a thousand sixpences or £25 to the State as income-tax. When this tax was first established it was considered a temporary expedient, and it was confidently believed that the tax would soon be remitted. Although it constantly varies in amount the tax has never been remitted since 1842, and after the experience gained in the general election of 1874, when its remission was proposed in electoral addresses first by the leader of the Liberal party and then by the leader of the Conservative party, without either of them subsequently

taking any steps for the practical carrying out of the proposal, it does not appear that there is a general desire in the country to repeal the income-tax. The question whether the income-tax should be considered as a permanent or a temporary impost is of great importance in deciding whether the tax is economically justifiable. The question whether the same amount of income-tax should be levied on temporary and on permanent incomes has given rise to much discussion. It may be shewn that the argument entirely turns on the point, whether the income-tax is permanent and fixed in amount, or whether it is temporary and variable. If it is permanent and fixed, the same amount should be levied from all incomes whether temporary or otherwise. If the tax is only imposed for a short time, with the view of remitting it as soon as possible, temporary incomes ought to be taxed at a lower rate than permanent incomes. Let us take an instance of the first case, viz. where the income-tax is permanent and fixed in amount. Mr. *A* is in receipt of an income of £1000 a year arising from landed property, Mr. *B* derives an income of £1000 from his profession as a doctor. It is urged by some that it is very hard to tax the temporary income of Mr. *B* at the same rate as the permanent income of Mr. *A*. It is said that Mr. *B*'s income is derived entirely by his own exertions, and that it will cease at his death. This plea points out the very reason why both incomes should be taxed at the same rate. Supposing the income-tax to be fixed and permanent, the income which Mr. *A* derives from his landed property will go on being taxed for ever; whereas Mr. *B*.'s income, which is derived from a temporary source, will cease to be taxed when it ceases to exist, at Mr. *B*'s death. The case may be further elucidated by another example. Suppose that three people each have £20,000 left them. *A* invests his £20,000 in landed property, which brings him in £500 a year; *B* purchases an annuity which ensures him £1500 a year for the rest of his life; while *C* purchases an annuity of £2500 a year, to last for 10 years. Now all these incomes are derived from an exactly equal amount of capital. The one income is permanent, the second depends on the life of an individual,

and the third will cease at the end of a certain term of years. Supposing the income-tax to be permanent and fixed, there is no reason why *A*'s income should be taxed at a higher rate than *B*'s or *C*'s. If the income-tax is 3*d*. in the pound *A*'s income will pay £6 5*s*. a year as income-tax for ever; *B*'s will pay £18 15*s*. a year for the rest of his life; and *C*'s will pay £31 5*s*. a year for 10 years. The value of these sums when capitalised is equal; and if *A*, *B*, and *C* wished to pay such a sum down as would exonerate their incomes from further payment of income-tax, each would have to pay the same amount. If, however, the income-tax were only a temporary impost, it would be unjust to tax temporary and permanent incomes at the same rate. Suppose, for instance, that an income-tax of 3*d*. in the pound were imposed for 10 years. In the case above described, *C* would in 10 years pay as much income-tax as *A* would if the tax were continued for ever. The same inequality, though in a minor degree, takes place when the income-tax varies in amount.

If the Income-Tax is permanent in duration and fixed in amount, temporary and permanent incomes should be taxed at the same rate. Thus it may be laid down as a general rule that when the income-tax is permanent and fixed in amount, all incomes, whether temporary or otherwise, should be taxed at the same rate: if, however, the income-tax is temporary in its duration, and uncertain in amount, permanent incomes should be taxed at a higher rate than temporary incomes. In the case of the income-tax being temporary in its duration, perfect equality could only be obtained by capitalising all incomes and annually deducting by means of the income-tax so much per cent. of their capitalised value. But this arrangement would be found quite impracticable, for in the case of temporary incomes endless difficulty and expense would follow an attempt to capitalise them. Government officials would have to examine all the receivers of temporary incomes and fix the amount of the income-tax which they had to pay, in accordance with their age and the state of their health. For instance, two half-pay officers of the same age, each receiving £200 a year,

might have to be taxed at different rates, because the one being much healthier than the other, would be likely to live longer, and the capitalised value of his income would therefore be greater than that of the other. If therefore an attempt were made to adjust the income-tax according to the capitalised value of each income, the expense of collecting the tax would absorb an undue proportion of the sum which it yields to the Treasury. This is an example of the assertion previously made, that legislators should strive to produce a general equality in the gross amount of taxation, and not endeavour to adjust each particular tax in accordance with the ability of the contributor to pay.

The Income-Tax presses more heavily on the possessors of small incomes than on the possessors of large incomes. The income-tax has been objected to on the ground that it presses much more severely on the possessor of a very small income than on the possessor of a large income. Thus if the income-tax were 6*d.* in the pound, and if it were levied on all incomes, the possessor of an income of £100 would have to pay £2 10*s.* a year; the possessor of an income of £10,000 would have to pay £250 a year. Now it may be urged that £100 a year is only barely sufficient to provide the necessaries of life; especially if it is assumed that the possessor of such an income has an average-sized family depending upon him. £2 10*s.* cannot be deducted from this income without depriving its possessor, or those depending on him, of sufficient food, clothing, shelter and warmth to ensure health and the absence of bodily suffering. To deduct £250 annually from an income of £10,000 inflicts no hardship on the possessor of this income; it may only reduce his consumption of luxuries. In order to provide a remedy for this inequality, it was suggested by Bentham that a certain minimum of income, sufficient to provide the necessaries of life, should be left untaxed; and that this amount should be deducted from all incomes, the remainder only to be taxed. For instance, if this minimum were fixed at £100, no income of this amount and under should be taxed at all; an income of £120 should be taxed only on £20; whilst an income of £1000 should be

taxed only on £900. By this means "each would then pay a certain fixed proportion of his superfluities." At the present time this scheme has not been carried into practice. The following modification of it has been adopted:—No income of less than £160 is taxed, and on incomes not exceeding £400 an exemption of £160 is made before they are assessed for income-tax; on incomes not exceeding £500 an exemption of £150 is made; on incomes not exceeding £600 the first £120 is exempt; on incomes not exceeding £700 the first £70 is exempt. For instance, an income of £200 is only taxed on £40; an income of £395 is only taxed on £235; and an income of £495 is only taxed on £345. This plan is not so accurately just as Bentham's; but it is much simpler in its application, because of the comparatively small number of persons affected by the exemption. In 1893 the exemptions made affected less than half a million people.

The Income-Tax is usually a direct tax; it is sometimes indirect. At first sight it appears that the income-tax is always a direct tax, but it may be shewn that there are cases in which income-tax is an indirect tax. When the income-tax is paid out of savings which would not otherwise be productively employed, it is a direct tax, because it is really borne by the person who pays the tax; but when the income-tax is paid out of capital it is an indirect tax, for it then falls partly on the labourers who would have been maintained by the capital used to pay the tax. For example, suppose that a manufacturer has to pay £1000 a year as income-tax, and that if this impost were not placed upon him he would use this sum in employing a larger number of labourers; it is evident, in such a case as this, that the tax falls partly on the labouring classes, and tends to lower the rate of wages. If, however, the manufacturer pays this £1000, not out of capital, but by reducing his consumption of luxuries, then the income-tax is a direct tax, and comes out of the pocket of the person who pays it. The income-tax is a severe burden upon industry if it is paid out of capital. In order to pay for the Crimean War the income-tax for the years 1854, 1855 and 1856 was 1*s.* 2*d.*, 1*s.* 4*d.* and 1*s.* 4*d.*

respectively; in order to pay for the South African War the income-tax was in 1900, 1901 and 1902 1*s.*, 1*s.* 2*d.* and 1*s.* 3*d.* respectively. When the income-tax is as high as this it is probably paid in part at least out of funds that would otherwise have been used as capital, and probably accounts in some degree for stagnation in trade and lack of employment.

Some dishonest people have the power to evade paying the full amount of the Income-Tax. It is urged as an objection to the income-tax that some dishonest people have opportunities of avoiding it by declaring their incomes to be smaller than they really are. The consideration whether any particular tax affects injuriously the morality of the people is one which no statesman is justified in neglecting. At the same time there is perhaps scarcely sufficient evidence to prove that the income-tax is the cause of the dishonesty of the people who evade it. It no doubt affords them an opportunity of being dishonest, but they would not avail themselves of the opportunity unless they were disposed to do so. Under the present condition of things, it can hardly therefore be considered a valid objection to the income-tax that it affords some dishonest people an opportunity of cheating the Government and the rest of the tax-payers.

Taxes on commodities should be levied on luxuries rather than on necessaries. Some of the remarks just made on the subject of the income-tax throw some light on the consideration of taxes on commodities. It was shewn that the income-tax ought not to be levied on those incomes which are sufficient only to procure the necessaries of life. It was laid down as a rule that each ought to contribute to the imperial exchequer a certain proportion of his superfluities. It therefore appears that taxes on commodities ought, in accordance with this rule, to be confined to luxuries, and should not be levied on the necessaries of life. If it be admitted that those persons ought to be as far as possible relieved from taxation whose incomes are sufficient only to provide them with necessaries, it is clear that the cost of these necessaries ought not to be increased by taxation. On the other hand, there is no reason why the luxuries consumed by the poorer classes of the community,

such as beer, spirits and tobacco, should not be taxed. If a man's income be sufficient to procure luxuries, he ought not to be entirely relieved from taxation on the ground of poverty; he ought to contribute to the State a certain proportion of his superfluities.

Taxes on land fall on the owner of the land, and not on the cultivator. It may be generally stated that all taxes which are levied on land, such as the land-tax, the tithe, and the poor rate, really fall on the owner of the land, and not on the cultivator. If these charges are in the first instance paid by the cultivating tenant, he pays so much less rent. If he ceases to pay the tax his rent is increased. A reduction of the poor rate on land, therefore, is no permanent or direct benefit to the tenant; at the first opportunity his rent will be raised by a sum corresponding to the amount of taxation of which he has been relieved.

The land-tax is really Rent. The land-tax, whether small or great in amount, partakes of the nature of a rent paid by the owner of the land to the State, and it thus recognises, in some degree, the proprietary rights of the State. In a great part of India the land is owned by the Government, and therefore the land-tax is rent, paid direct by the cultivating tenants to the State. These tenants, instead of holding under private owners, hold under the State, and the rent which they pay is called land-tax. The economic perfection of this system of tenure may be readily perceived. It has been shewn that as population increases, the value of land, owing to no exertions on the part of the owner or cultivator, increases, on account of the increased value of agricultural produce. In a system of land-tenure where land is owned by private individuals, all this additional value is shared by a few persons who happen to be the owners of land. In a system of land-tenure where the land is owned by the State, this additional value is shared by the whole nation, and may be devoted to the relief of taxation. A great part of that wealth which is taken out of the pockets of the people by the increased price of food, is returned to them in the shape of the larger rents which are paid into the national exchequer. The land revenue of India amounts

(1901) to about £18,000,000 annually. The payment of this large amount is a burden to no one; if it were not paid to the State it would be paid to landlords. No one is injured by the payment of this sum; on the contrary, a much larger amount of taxation would have to be levied if the land were owned by private individuals; for in this case the national revenue would be diminished by £18,000,000 annually, and this deficiency would have to be supplied by increased taxation. It is clear that the land-tax should never exceed the economic rent; *i.e.* the surplus which remains after defraying all the expenses of cultivation, including the average rate of profit on the capital of the cultivator. It has been shewn that this surplus is equal to the difference in value between the land in question and the worst land in cultivation which pays no rent. If the land-tax exceed the economic rent, the cultivation of the worst land, which formerly paid no rent, will cease to be profitable, and it will consequently fall out of cultivation. The supply of food will be diminished and prices will rise. The excessive land-tax will lead to increasing the supply of food by means of foreign importations. When therefore the land-tax exceeds the economic rent, a double tendency is exerted to throw land out of cultivation, and consequently the area from which the tax is collected is decreased.

Mr. Henry George's proposals with regard to Land. Mr. Henry George, in his book called *Progress and Poverty*, has advocated that the State should take from the landowners of this country in the form of land-tax the whole annual value of their land, leaving to them only just sufficient to induce them to collect the rents and transact the business of stewards or land-agents. It is unnecessary to point out that although the economic benefits arising from the State being the owner of the land are undeniable, it would be spoliation and robbery to deprive private owners of the value of their land, which has often been acquired by means of years of patient toil and thrift, and the productiveness of which is often almost entirely the result of the application of labour and capital. It is impossible to believe that the character of the English people will ever change so much as to induce

them seriously to advocate the wholesale robbery which Mr. George's scheme involves. He sees in England a favourable field for the adoption of his plan because there the landowners being few in proportion to the population, they would have less power of resistance. Apart from the repugnance with which Mr. George's scheme must be regarded from the moral point of view, in such a wealthy country as England the loot would not be worth the tremendous revolution which the seizure of it would involve. If the rent of all the land in England were to-morrow to become the property of the entire people, each individual's share of the spoil would amount to about 1*s.* 6*d.* a week. To confiscate the whole of the value of the land in order to put an extra 3*d.* a day into everybody's pocket is burning down a house to roast a pig. There are so many easier, not to say honester, ways of earning or saving 3*d.* a day for six days in the week. Improvements in the export, carriage and distribution of food, such as fish and meat, reduction of fares in omnibuses, tramcars and railways, greater economy in the use of wine, spirits and tobacco, indicate a few of the ways in which Mr. George's 1*s.* 6*d.* a week could be provided much more easily than by confiscating the rent of land. The disciples of Mr. Henry George in Ireland and elsewhere steadily resist all changes which have the effect of increasing the numbers of those who own the land. The difficulty of carrying out the scheme of spoliation would be greatly increased by increasing the number and consequently the power of the owners of land.

Tithes are a charge on Landed Property. Tithes are a charge on landed property: they were originally imposed for the maintenance of religious establishments. As the name implies, they formerly amounted to one-tenth of the produce. The appropriation of tithes for religious purposes was abolished in the time of the Reformation, and tithes are now very frequently owned by private individuals who have no share in the cultivation, management or possession of the land. The difficulty of assessing the tithe led to the passing, in 1837, of the Tithe Commutation Act, by which the amount of tithe paid is

regulated according to the average price of corn during the previous seven years. By this arrangement the tithe proprietor was excluded from benefiting by the increased productiveness of land. He would indeed be a sufferer by any circumstance which might, for example, double the yield of corn. For such an event would reduce the price of corn, and would accordingly diminish the amount of the tithe. The Tithe Commutation Act also tends to diminish the proportional value of the tithe, for reasons which were probably unforeseen by those who passed the Act in 1837. Corn is easily imported from foreign countries. An immense quantity has since 1847 been annually imported into this country. Live stock, milk, butter, etc. cannot be so easily imported; therefore the relative value of corn, as compared with meat and dairy produce, will tend to diminish as population increases. Hence the tithe, being determined solely by the average price of corn, will not increase proportionally with the increased value of agricultural produce considered as a whole.

The Incidence of Poor Rates levied on Dwelling-houses. Without attempting to describe the social effects of the poor rates, it is desirable to give a short account of their incidence and some of their economic consequences. The poor rates are levied only on real property, such as land, trade premises and houses. It has already been pointed out that in agricultural land poor rates are really borne by the owner of the land. It has been long a disputed point whether in the case of house property the incidence of poor rates is on the occupier or the owner. If the reduction or abolition of the poor rate increased the rent of houses by an amount exactly corresponding to the sum which was formerly levied on the same houses as poor rate, then the whole incidence of the rate is on the landlord, because the rate reduces his rent. But it must be remembered that the poor rate is levied, not only on the land on which the house is built, but on the house itself. For instance, a certain house pays £9 a year ground rent, and £60 as house rent. The poor rates levied on this house average £9 annually. The rate is levied at so

much in the pound of the entire rental, and not on the ground rent only. Now it is evident that the builder of the house does not bear the rate any more than a grocer bears the duty on tea. The builder gets the average rate of profit of his trade; this profit being composed of the following elements:—the current rate of interest, compensation for risk and wages of superintendence. The poor rate does not come out of his pocket, but it increases the cost of production, just in the same way as the duty on wine increases the cost of its production. The total cost of renting a house is therefore increased by the poor rate, and consequently the poor rates fall partly on the occupier of a house. The owner of the land bears the incidence of that part of the poor rate which is calculated on the ground rent; the occupier bears the incidence of the rate levied on the value of the house.

The Incidence of Poor Rates levied on Trade premises. In the case of trade premises, manufactories, etc., the poor rates must also be divided into two portions; that levied on the land being borne by the owner of the land, and that levied on the buildings being borne by the consumers of the commodities which are manufactured in the buildings. Take, for example, the incidence of the poor rates levied on a cotton mill. Let it be assumed that they amount to £150 annually. The cost of producing a given quantity of cotton goods is thus increased by £150, and as it has been shewn that the price of commodities which can be indefinitely increased is always ultimately regulated by cost of production, it is evident that the poor rate increases the price of cotton goods, or, in other words, the incidence of the rate is on the consumer. But it may be urged that the rate varies in different localities: that in one parish the rate levied on certain premises may be £100, and in another parish the rate levied on similar premises may be £300. If these premises are both used to produce the same commodities, what influence will these different rates have on the prices of the commodities? It is a principle of political economy that the price of a commodity is regulated by the cost of producing that portion

whose cost of production is the highest. The price of vessels is regulated by the cost of producing those vessels whose cost of production is the highest. If the price were less, the vessels built under the most disadvantageous circumstances would cease to yield the ordinary rate of profit to capital and the average rate of wages to labour. But it must be remembered that at the same time the manufacturers who are carrying on business under more favourable circumstances are realising exceptionally large profits. There is therefore every inducement for them to increase the supply. If this increased supply takes place, or if there is a decrease in the demand, the equalisation between supply and demand is effected by a lowering of the price. Under these circumstances the most heavily burdened part of the ship-building trade ceases to be profitable and gradually ceases to exist. This describes what actually took place in 1870 in the London ship-building trade. The poor rates and other charges were so enormously high in the East End of London, that when the exceptional demand for vessels caused by the American war fell off, and the price of vessels consequently declined, the ship-building trade of London was virtually destroyed: such vessels as were required being built at Belfast and on the Tyne and the Clyde. Every ship-building yard that was closed hastened the closing of the rest in the same locality; for by throwing hundreds of artisans out of employment pauperism was increased and the amount of the poor rate was necessarily augmented. The burdens on the depressed industry thus speedily accumulated, and gradually but surely the ship-building trade declined on the Thames. The incidence of poor rates in such a case as this is borne by the capitalists and labourers engaged in the depressed industry, and the poor rate may be perhaps in such an instance accused of causing more misery than it alleviates. It is a most serious national misfortune when the amount of the poor rate is so great as to maim or destroy a once prosperous branch of industry. No remedy for this paralysing influence of the poor rate can be provided by the well-meant efforts of private charity. No permanent benefit will

result from individual exertions or legislative enactments unless they tend to weaken the causes which produce pauperism.

Questions on Chapter III. *On Taxation.*

1. Why is taxation necessary?
2. Ought any class of persons who avail themselves of the protection which a State affords to enjoy immunity from taxation?
3. Enumerate Adam Smith's four canons of taxation.
4. In what manner only can the first canon be observed?
5. Why is the non-observance of the second canon detrimental to trade?
6. Illustrate the importance of the third canon.
7. Point out the connection between the third and the fourth canons.
8. Describe the utility of bonding houses.
9. What is the effect of the use of the bonding house on the price of the commodities lodged therein?
10. In accordance with the fourth canon, ought taxes to be levied on raw material or on manufactured commodities?
11. Why does a tax on raw material increase the price of the manufactured commodity by an amount far exceeding the revenue yielded to the State?
12. Why would direct taxation on commodities sold in shops be impracticable?
13. Which is the most obvious way of carrying out the fourth canon?
14. What is the difference between direct and indirect taxation?
15. What is meant by the incidence of taxation?
16. What is the income-tax?
17. Ought temporary and permanent incomes to be taxed at the same rate?
18. Give illustrations shewing that temporary and permanent incomes ought to be taxed at the same rate if the income-tax is fixed in amount and permanent.

19. Why would it be impracticable to adjust the income-tax according to the capitalised value of each income?

20. Why does the income-tax press more severely on the possessor of a small income than on the possessor of a large income?

21. What remedy has been suggested for this inequality?

22. What modification of this plan has been adopted?

23. Is the income-tax invariably a direct tax?

24. When income-tax is paid out of capital, on whom does the tax chiefly fall?

25. Is the opportunity of evading the payment of the full amount of income-tax, which some people avail themselves of, a valid objection to the tax?

26. It has been laid down as an axiom, that each ought to contribute to the imperial exchequer a certain fixed proportion of his superfluities. What effect would this rule have in deciding what commodities should be taxed?

27. Who bears the incidence of all taxes levied on land?

28. What is the land-tax?

29. Describe its magnitude in England and in India.

30. What important principle is recognised by the existence of a land-tax?

31. Explain the economic perfection of a land-tenure in which all rents are paid to the State.

32. What would be the consequence of the land-tax exceeding the economic rent?

33. In what manner has Mr. Henry George proposed that the State should appropriate the land of England?

34. What are tithes, what was their original purpose, and by whom are they now frequently owned?

35. What are the main provisions of the Tithe Commutation Act?

36. What effect has this Act had on the amount of the tithes?

37. Who bears the incidence of poor rates in the case of house property?

38. Prove that the occupier of the house bears part of the incidence of the poor rate.

39. Who bears the incidence of the poor rate levied on trade premises?

40. What is the effect of excessive rates in depressing industry?

41. Describe the decline of the ship-building trade on the Thames.

42. When the burden of the rates is such as to destroy a branch of industry, on whom does the real burden fall?

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1. It was said that tax-payers were never asked by the collector whether they approved of this or that application of public money; but do not the tax-payers then control the national expenditure? have they not a right to do so? How far does the parliamentary suffrage confer this power on the tax-payers?

2. Were the taxes on hair-powder and on windows direct or indirect?

3. Mr. George contends that land being a gift of nature to mankind cannot properly become private property; but that the result of human labour can alone with justice thus be owned by individuals. Apply this theory to—

(1) The fen lands of Cambridge which previous to drainage were useless swamps.

(2) Wild roots and fruits.

(3) A brick-field.

(4) A cart-load of brick earth.

(5) The same earth when converted into bricks.

(6) Gold and silver when found, as sometimes happens, in valuable nuggets without labour.

(7) The cultivated terraces on Swiss mountains where the earth has been carried up in baskets by men and women.

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